LLOYDS BANKING GROUP PLC – Q1 2026 INTERIM MANAGEMENT STATEMENT – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

Wednesday 29 April, 2026 – 9.30am

LBG:
William Chalmers, Chief Financial Officer

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

SLIDE 2 – BUILDING BUSINESS MOMENTUM WITH HIGHER, SUSTAINABLE RETURNS
In Q1, we continue to make progress on our strategy as we enter the final year of our current plan. As you heard in January, we have a busy year of delivery over 2026 with momentum building across the business.

In the first quarter, the Group once again delivered sustained strength in financial performance. This means continued growth in income, ongoing cost discipline, and strong asset quality. We have a resilient business model that positions us well in the context of the current macroeconomic environment. Our financial performance gives us confidence in the outlook for our business. We are reiterating our 2026 guidance, including a modest increase in net interest income.

Let me now talk about financials on slide three.

SLIDE 3 – SUSTAINED STRENGTH IN FINANCIAL PERFORMANCE
Lloyds Banking Group continues to deliver sustained strength in its financial performance. In Q1, statutory profit after tax was £1.6 billion, equating to a return on tangible equity of 17%. Within this, we delivered net income of £4.8 billion, up 9% on the previous year, and 1% higher than Q4.

Income growth was driven by further progress in net interest income, supported by a net interest margin of 3.17%, up seven basis points in Q1, as well as healthy volume growth. Alongside, other income grew by 11% year-on-year, continuing the positive and broad-based momentum being delivered by our strategy.

Operating costs for the quarter were £2.5 billion, down 3% year-on-year. This reflects our disciplined approach supported by continued efficiency savings and lower severance costs in quarter. The remediation charge for the quarter meanwhile was £11 million with no additional provision for motor finance.

Credit performance remained strong with an impairment charge of £295 million in Q1, an asset quality ratio of 25 basis points. Tangible net asset value per share ended Q1 at 57.9 pence, an increase of 0.9 pence versus the prior quarter, despite the impact of higher rates on the cash flow hedge reserve. Our performance has driven strong capital generation of 41 basis points with a CET1 ratio at the end of the quarter of 13.4%.

Let me now turn to slide four to look at movements across the balance sheet.

SLIDE 4 – LENDING GROWTH WITH DISCIPLINE IN DEPOSITS
We saw continued strength across our lending portfolios in Q1 whilst we maintained discipline in our deposit strategy. Lending balances closed the first quarter at £486 billion, up £5.1 billion or 1% versus Q4 '25 with growth across all business lines.

Within this, mortgages grew by a net £1.6 billion. This is in the context of a significant quarter of maturities and what remains a competitive market. Completion margins meanwhile were again around 70 basis points in the quarter.

Commercial balances were up £2.8 billion in Q1. Pleasingly, this included growth across both our CIB and BCB businesses. The latter after £0.3 billion of government-backed lending repayments.
Looking at the liability franchise, total deposits were down slightly by £0.6 billion. Within this, retail deposits were down £3.1 billion, mainly driven by outflows from maturing fixed term savings deposits, given our

participation decisions. We maintained price discipline in an increasingly competitive and at times negative margin market at tax year-end. We focused on retaining and attracting higher value customers with broader product holdings within the Group.

Alongside, PCAs were up £0.6 billion, supported by the strength of our franchise and our propositions. Looking forward, as the tax year-end finalises, we'll continue to invest in our relationship customers and expect deposit balances to reflect that.

Commercial deposits were up £2.3 billion, driven by growth in corporate and institutional banking. Insurance pensions and investments saw open book net new money flows of £2.2 billion, supported by inflows from our workplace franchise, alongside a good start from Lloyds Wealth.

Let me turn to net interest income on slide five.

SLIDE 5 – GROWTH IN NET INTEREST INCOME

Net interest income continues to grow robustly. NII for the quarter was £3.6 billion, up 1% versus Q4 and up 8% year-on-year.

Strong growth in customer lending and hedge income continues to more than offset mortgage repricing headwinds. Average interest only assets of £473.5 billion for Q1 were up 1% compared to the prior quarter. Alongside, our net interest margin increased seven basis points to 3.17%.

The non-banking NII charge in Q1 was £129 million, down slightly on Q4. For 2026, we now expect net interest income of greater than £14.9 billion. This represents a modest increase versus our prior guidance, mainly driven by higher rate expectations. In particular, we now expect structural hedge income to be slightly stronger than previously anticipated, rising by more than £1.5 billion in 2026 to greater than £7 billion before growing to more than £8 billion in '27.

The structural hedge notional balance now stands at £246 billion. We've increased it by £2 billion versus Q4, given strong and persistent performance in hedge eligible deposits.

Let me turn to other income on slide six.

SLIDE 6 – MOMENTUM IN OTHER INCOME

Other operating income continues to show momentum. OOI was £1.6 billion in a quarter, up 11% on the prior year and up 1% versus Q4. Growth continues to be broad based. In particular, Q1 saw further strength in transport and our equity investments business, as well as a quarter of strong performance of Lloyds Wealth. This was partly offset by a lower CIB result with the business impacted by macro uncertainty and volatility. We expect the CIB result to be stronger in Q2.

We are seeing continued progress in our strategic initiatives. We've listed some recent developments on the slide, including further momentum in Tusker and Lloyds Living, strong demand for our new Ultra Card in retail, and industry recognition for our scale cash management and payments platform in commercial.

Operating lease depreciation was £389 million in Q1, up £10 million quarter on quarter, driven by fleet growth and higher value vehicles alongside some price weakness in disposals.

Moving to costs on slide seven.

SLIDE 7 – DISCIPLINE ON COSTS

Cost discipline continues to be an imperative. Q1 operating costs were £2.5 billion, down 3% on the prior year, driven by continued efficiency savings and a lower severance charge versus Q1 '25.

The cost income ratio for the first quarter was 51.9%. We remain confident of delivering a 2026 cost income ratio of less than 50% as income builds through the year and our investment in this strategic cycle culminates. We will update on our investment plans and associated growth objectives for the next stage of the strategy in July.

The remediation charge for Q1 was £11 million. Following the FCA announcement on the final rules of the motor finance redress scheme, our assessment is that no change is required to our £1.95 billion provision. Note that the provision continues to be a scenario-based approach, meaning that while it represents our best estimate, uncertainties remain.

Let me turn to credit performance on slide eight.

SLIDE 8 – STRONG AND STABLE CREDIT PERFORMANCE
Credit performance remains strong, reflecting our resilient customer base and our prudent approach to risk.

Retail and commercial both continue to see low and stable impairments and new to arrears and other early warning indicators remain benign. Although we have downgraded our economic forecasts, we have as yet seen no impact on the portfolio from the conflict in the Middle East. In this context, the Q1 impairment charge was £295 million, equating to an asset quality ratio of 25 basis points. The pre-MES asset quality ratio was 16 basis points, benefiting from a stable underlying charge and some model calibrations.

Reflecting the weaker macroeconomic outlook, we have taken a £101 million net MES charge in the first quarter. This incorporates a £151 million charge based on revised forecasts offset by £50 million release of last year's tariff PMA in commercial.

We continue to expect the full year asset quality ratio to be around 25 basis points. I'll give further detail on our updated macroeconomic outlook on slide nine.

SLIDE 9 – UPDATED MACROECONOMIC OUTLOOK
The implications of the conflict in the Middle East lead us to revise our economic outlook. In essence, we see a higher inflationary environment leading to higher rates, slower GDP and HPI growth, and slightly higher unemployment. CPI averages 3.4% in 2026 versus our prior assumption of 2.6%. Higher inflation means we now forecast no reductions in the bank rate during this year. We continue to expect a terminal rate of 3.5%. This reduces GDP growth to around 0.5% in 26 from 1.2% and house price growth to around 1%.

Finally, this gives a slightly higher unemployment peak at 5.6% in the fourth quarter of this year. Clearly, there remains significant uncertainty. In particular, our current economic expectations are conditioned on a gradual easing of disruption over the course of the year, similar to market assumptions.

As you know, our business model is well-placed to endure macro challenges, and around higher rates may lead to some income benefits. However, in 2026, it's likely these are largely offset by slower activity levels. Alongside, we stick with our AQR guidance of circa 25 basis points.

Let me now turn to our returns and TNAV on slide ten.

SLIDE 10 – STRONG RETURN ON TANGIBLE EQUITY
Based upon strong business performance, the Group delivered a return on tangible equity of 17% for the quarter. Below the line, the restructuring charge was £18 million, which includes integration costs for Curve and Lloyds Wealth. Volatility and other items was positive at £38 million, largely due to insurance related gains.

Tangible net asset value per share meanwhile increased to 57.9 pence, up 0.9 pence, or 2% in the quarter. The increase was driven by strong profitability and a higher pension surplus, partly offset by the impact of higher rates on the cashflow hedge reserve. Looking ahead, we continue to expect material TNAV per share growth in both the short and the medium term. We also continue to expect RoTE of more than 16% in 2026.

Turning now to capital generation on slide eleven.

SLIDE 11 – STRONG CAPITAL GENERATION
The Group continues to be highly capital generative. Risk weighted assets closed the quarter at £241 billion, up £5.3 billion from the prior quarter. This increase principally reflects strong lending growth in a quarter of limited planned optimization.

Across Q1, we generated 41 basis points of capital, consistent with our expectations at this stage of the year. And following this, the Group CET1 ratio ended the quarter at 13.4%. Looking forward, we continue to expect 2026 capital generation to be more than 200 basis points and to pay down to a CET1 ratio of around 13% by the end of the year.

Let me now wrap up on slide twelve.

SLIDE 12 – SUSTAINED STRENGTH IN PERFORMANCE

To summarise, in Q1, the Group is delivering on its strategic ambitions in the final year of our plan. We are demonstrating sustained strength in our financial performance, meaning strong growth in income, ongoing cost discipline, and strong asset quality.

As we look ahead to the remainder of 2026, we are confident of meeting the financial guidance as laid out in the slide. Beyond 2026, we are committed to continuing income growth, improving operating leverage, and stronger sustainable returns. We look forward to updating further with our strategic review alongside our half-year results.

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

QUESTION AND ANSWER SESSION

Question 1: Aman Rakkar, Barclays

Hi William. Thanks very much for the presentation and chance to ask questions. I was going to ask about other operating income. I just wanted a bit more colour. It looks like CIB was affected by market dynamics in the quarter. I do note that we saw a pretty significant move higher in sterling rates in the quarter.

So I don't know if you can just kind of lift the lid on what exactly happened there and if there's any kind of mark to market impacts. And, as I see, you've alluded to expecting better performance in Q2, so it'd be great to kind of get a bit more colour on that line item, because I think this time last year, that number was down year-on-year from a tough comp the year beforehand. So it'd be good to kind of get a sense of what the clean run rate is in CIB.

And then the second question I just had, I was just noting your comments around the fall out of the Middle East, you were kind of referring to high rates, offering some income benefits, but potentially offset by slower activity levels. I was wondering if you could just give us a little bit more colour in your mind exactly what you're referencing there. Again, is it other operating income? Is it lending? Balance sheet momentum? Whatever you're referring to, it would be really helpful. Thank you so much.

William Chalmers:

Thanks, Aman. For both questions. I'll take them in turn.

First of all, on OOI, just to step back, I mean, the year-on-year performance, 11% up is obviously pretty creditable. Within that, we've seen, as I mentioned in my comments, some decent growth within the retail area, transportation in particular, some decent growth in terms of the investments businesses, LDC, Lloyds Living as part of that, and an ongoing growth in IP&I.

As you highlighted, we've seen slightly weaker performance in commercial, and that is primarily off the back of difficult interest rate markets in particular during the course of the first quarter, alongside limited issuance activity. Now, the business within CIB is a great business and we've been growing it solidly over the course of the strategic plan, as you know. So other operating income in commercial, in CIB in particular, is up 35% since we started the strategy. We expect that to continue to grow and we intend to continue to build out the focus of that business so that it's a little more diversified.

As it stands right now, as mentioned, it was impacted by UK rates and it was impacted by relatively modest issuance activity in the first quarter. And we do not expect the rates impact to repeat in quarter two, and we've already seen issuance activity picking up. So as I mentioned in my comments earlier on, that CIB performance in quarter one is unlikely to be repeated in quarter two. Indeed, we'll see some strengthening there.

I would also just highlight that we've seen some very successful product launches in Retail over the course of the first quarter, and those in turn have been partly incentivised, and that's probably led to a slightly slower performance in retail as a whole in the first quarter than we're likely to see in the second, as those product incentives work their way through and indeed deliver the income benefits, we would expect to see from the success of those product launches. So that's the second factor.

And then thirdly, as is typical with the first quarter, IP&I has a slightly more subdued performance in quarter one off the back of weather in GI. That's just a natural cycle of things.

Stepping back on OOI, Aman, we're not changing what we said at the beginning of the year actually, which is that we expect OOI growth for '26 to be ahead of '25. I think from memory, '25 growth was about 9%. We'd expect more of the same plus Lloyds Wealth, which is, I think, similar to what we said or equivalent to what we said at the end of the year. We're not changing that expectation.

You asked about income and activity, Aman. Nothing specific there that I would really highlight. It's simply that we have seen obviously an increase, a modest increase in our net interest income expectations off the back of rates developments, also off the back of a slight strengthening of the notional in the structural hedge as you'll have seen, a couple of billion up because we've seen very steady hedge eligible deposit performance, and that has enabled us to be more confident about the net interest income for this year, as expressed in our guidance.

At the same time, as you know, and as we commented, our macro assumptions have come in a little bit. So rather than in excess of 1% GDP growth, we're now expecting about 0.5% GDP growth. We're expecting a slight pickup in terms of the unemployment rate peaking at around 5.6% in quarter four of this year, probably slightly more modest HPI growth, just a shade below 1%.

None of this stuff is particularly dramatic, but nonetheless, it's a slightly more subdued growth picture than previously. And of course, one would logically expect that to feed through into expectations around economic activity in general. As you can see from my comments on the answer to the previous question, that doesn't affect our guidance in respect of OOI. That doesn't reflect too much on our expectations, but it's just more a general point off the back of those economic assumptions that we are making. Hopefully, Aman, that gives you some insight as to your questions.

Question 2: Jason Napier, UBS.
Morning, William. Thank you for taking the questions. First of all, I think those watching the Group closely can see a real sort of high cadence around strategic issues. Some of the hiring that you've done in AI and wealth and risk sort of being front of my mind. At the third quarter of last year, you said that your strategic update may well include targets to a round number year, or words to that effect. Given that the market, I think, is going to want to be focused on the sort of strategic update from here, I wonder whether you could give us a sense as to how you're thinking about that event, how the Group is going about setting targets and so on? Basically, if you could give us a forthcoming attractions advert for that.

Secondly, I mean, clearly sentiment around UK domestic economics is very, very poor and entirely at odds with the fact that your C&I loans are up 10% year-on-year, and that the Bank of England data has got them up nine. So given that commercial has a margin that's nearly double that of retail and that you're growing this book really quite well, I wonder whether you could just sort of unpack first of all, where the volume growth is coming from. And then secondly, what it means in your mind at a high-level for revenue growth in that business. I mean, is it a double-digits revenue growth business? It did double-digits last year, even as rates fell, and despite its low LDR. So it just looks perhaps like a much better story than investors are assigning to it. So if you could just talk a little bit about what you're seeing in that division in particular, that would be helpful. Thank you.

William Chalmers:
Thank you, Jason. Sure. I'll do my best on the first one without wanting to steal the thunder, obviously, of the event in July. And then separately, I'll come to the commercial banking points. The strategic update in July so

far, all that we've said about it is that we do expect, beyond 2026, continued growth in income, improvements in operating leverage, and strong and sustainable returns and indeed capital distributions off the back of that. That is the financial picture for the strategic update. And I won't talk too much about the content beyond that from a strategic point of view. Safe to say you talked about round numbers, it's likely that we'll go towards the end of the decade in the context of the strategic update either timeframes that we'll give.

It's reasonable, I think, to expect us to deliver a degree of continuity in the strategic update that is around finishing the job that we have embarked upon from 2022 onwards. It is also reasonable to expect us to consider how can we extend beyond that in the context of capturing the unique capabilities and strengths and market presence of the Group, both within areas and across areas. And then I think it's reasonable to expect us to build upon the operating model of the Group to ensure that we are able to deliver customer propositions tailored and efficiently. And then finally, that is all put together in the context of wanting to, and expecting to deliver sustainable returns to shareholders. So I won't go beyond that, Jason, but hopefully that gives you some sort of sense of direction, and then we can talk about it more fully during the course of July.

Commercial banking is, as your comment suggests, a terribly important area from our perspective, and it captures both the CIB and also the BCB, i.e, SME part of our franchise. So CB should be viewed in that context. What have we seen, first of all? It has been a big part of our investments over the course of this strategic period. We talk about digitising the SME bank with the BCB business, for example, that's in the context of a digitised offering with relationship manager advice attached.

We've also talked about building out the strength of the CIB franchise, and I commented upon that just a second ago in the context of the OOI performance. That is really a story of ensuring that we capitalise upon what is our right to win. That is to say, we are the leading UK bank. We have a very strong franchise amongst UK corporates. And we expect to deliver more fully upon all of the needs of those UK corporates, both here within the UK and indeed in the adjacent geographies, as well as investors looking to make inward investments within the UK. So building on that CIB offering in the context of, as I mentioned earlier on, broadening out in terms of diversification, nothing particularly radical, still with a 'cash, debt, risk' focus, that has always been our focus from a strategic perspective, and it's likely to continue to be. But that's a sort of strategic tenor both for BCB and for CIB.

Now, a couple of comments beyond that. One is you highlighted lending growth in the context of your comments there. And in respect of each of those, I'll maybe make a couple of points. BCB, first of all, BCB has been seeing some success in terms of going into some of its core sector areas and improving the lending proposition off the back of, as I said, a better infrastructure. It has been held back from a presentational balance sheet point of view by the fact that we've consistently been seeing customers making repayments on their government backed lending, i.e. bounce back loans.

What was interesting about this quarter is that for the first time, over the course of recent periods at least, the new lending to the private sector outweighed those government-backed lending repayments. And so as a result, you saw BCB balances growing by £0.6 billion over the course of the quarter, which is great to see. That in turn is a pattern that we expect to see going forward as BCB lending continues off the back of strong propositions. CIB has been a business, as you say, that has built balances mainly in target sectors like infrastructure, institutional activities, trade, that type of thing. That's really where we've concentrated the efforts.

And then I would add the further comment, Jason, beyond the lending picture that I've just portrayed, that this is also, and significantly about other operating income. Both within the context of BCB where our customers require a lot of services and activities that are basically other operating income in orientation. And likewise, in the context of CIB, where as you know, it is often about the relationship that you're building with the customer, and lending is only a relatively small part of that. It's about building the other operating income streams in the areas that I mentioned earlier on.

So Jason, hopefully that gives you a sense. CIB is an incredibly important part of our business. We have been investing heavily into it. We expect to do so going forward. It's a lending proposition for sure, but it's a very important other operating income stream too.

Question 3: Benjamin Toms, RBC.
Good morning, William. Thank you for taking my questions. The first one's on margin. You show on Slide 5, the building blocks for NIM. Maybe you could just give some colour about whether you'd expect the moving parts in NIM to be similar in Q2 versus those that we saw in Q1.

And then secondly, you've made no change to your motor finance provision. If the High Court accepts the judicial review application from consumer voice, does that have the potential to lead to a couple of hundred million top up as you'll need to add a new scenario to provision calculation which ascribes the probability weighting for the judicial review challenge being successful? Thank you.

William Chalmers:
Thanks, Ben, for those questions. I'll take them each in turn, obviously. First of all, the margin performance in Q1, as you point out, is pretty robust, pretty good. It is essentially in line with our expectations where we described at the beginning of the year the expectation of material growth in net interest margin over the course of this year. Up seven basis points is not far away from what we expected, and it's being driven by the usual kind of compilation of tailwinds offset somewhat by headwinds that we've discussed before. So specifically within that, we've seen the benefit of the hedge come through quite significantly in the course of quarter one. We've seen some benefit from funding issuance, a little bit from commercial banking to the margin and so forth. So those are the primary tailwinds, as said, the hedge being foremost amongst them.

And then the headwinds. We've seen the mortgage refinancing pressure and a little bit in deposits. Now, looking forward, a couple of points to make really. One is, we do expect those tailwinds to continue to play out over the course of the year. And we do expect those tailwinds to continue to be materially greater than the offsetting headwinds. So the characters will be the same. That is to say structural hedge will remain strong. We continue to expect a little bit of benefit from our funding issuance activity and so forth. And on the other side, mortgages will continue to be a refinancing headwind for the remainder of this year, but the overall pattern is one of positive progress in net interest margin. And you should expect to see progress pretty much in every quarter for the net interest margin. So progress in quarter two, three, and four going forward. Steady progress towards a materially better margin at the end of this year than we came into it.

I would add actually, in that context that as you know, when we talk about our guidance these days, we're really talking about net interest income, Ben, as opposed to net interest margin. And in that net interest income context, we should talk a bit about the lending growth that we're seeing. We should talk a bit about the deposit picture and the like. And lending growth, as you know, in the course of quarter one has been just over £6 billion. So pretty solid lending growth across the piece in terms of retail and commercial. And that is a big part of net interest income too.

The motor point, Ben, the motor provision of £1.95 billion remains, from our perspective, the best estimate of how this thing is going to come out. I'll maybe just take a step back and comment briefly on the position with motor. We are, as you know, disappointed in, and we don't necessarily agree with the conclusions of the FCA scheme that has been launched. There are various reasons for that. We think the proposals are disproportionate. We think that it produces, or may produce, anomalous outcomes for customers. But having said all of that, we think that it is in the best interests of customers, and indeed the Group and its shareholders, to just move on at this point. We have a strong transportation financing business. And we want to make sure that there is a functioning consumer finance market, which for us is an important growth business.

So that's how we see the overall picture. The £1.95 billion, as said, is a best estimate, but as I mentioned in my comments earlier on, is also a scenario-based estimate. And what that means is that we've taken the FCA scenario, including its take up rates and all the other component parts of it as our base within the overall provision modelling. We have also looked at scenarios around that, including things like different response rates, different cost levels. But pertinent to your point or relevant to your point, Ben, we have also looked at challenge scenarios, and indeed litigation through the courts as part of our overall assessment of that £1.95 billion. And the £1.95 billion, therefore, takes account of those types of challenge scenarios attached to the probability that we think there is of success.

And I would make the final point, Ben, is that the challenge scenarios aren't only going in one direction. You've got a challenge scenario from a consumer group, the one that you mentioned. You've also got the potential for challenge scenarios from others. And therefore, what the net of that is from a challenge perspective, we have to see. But I think it's important to bear in mind that there may be challenge to the FCA scheme that go in both directions upwards, but also downwards. Overall, £1.95 billion is our best estimate.

Question4: Sheel Shah, JP Morgan.
Great. Thanks for taking the question. Just one on the structural hedge, please. You've previously said that you would expect the hedge to grow the notional slowly through the year. You grew it by £2 billion this quarter, should we expect this level of growth going forward, considering we have seen some stability in the deposit environment, particularly around the current account deposit base? And alongside that, could you talk about the shape of hedge reinvestments in the year? And how much pre-hedging you would've done in the first quarter? And would we expect any more pre-hedging in this second quarter? Thanks.

William Chalmers:
Thanks for that, Sheel. Maybe just start off again with the overall objectives of the hedge, as always, as you know, about stability, number one, stability of earnings, and therefore stability of capital generation and indeed repatriation to our investors. And then also shareholder value. Now, your question there was around the notional around the look forward. In the context of the notional, we have increased the notional by £2 billion over the course of the quarter, £244 billion goes up to £246 billion. And as you rightly say, that is essentially driven by the significant stability, and indeed buildup of buffers that we have seen in hedge eligible balances. That comes from PCAs, to a degree it comes from instant access.

The PCA performance, as you know, in quarter one of this year, really positive i.e. £0.6 billion up. Instant access has been very solid over the course of this quarter, but actually that has been the pattern over the course of quarters preceding that. And it's the buildup of buffers that we have seen in hedge eligible balances because of continued persistence, and indeed growth in those hedge eligible balances over the course of last year, and coming into this that has caused us to say, actually now is the right time to modestly increase the notional of the hedge.

Now, it's safe to say that the types of buffer and maturities that we keep in mind going forward are still well in excess of our internal guidelines. So there's quite a lot of buffer still in place, well in excess of our internal guidelines, despite the fact that we've increased the notional by a couple of billion. And that's kind of as it should be and we feel very comfortable with that.

We talked about the look-forward. As we look forward, I think any further progress on the structural hedge for this year will entirely depend upon how the key elements of the hedge eligible balances perform. And we've got a lot of successful propositions out there. I mentioned some of them in the context of the other operating income question that we discussed a second ago. But we just have to see how the balance sheet shapes up over the course of this year. I don't want to set too many expectations over the hedge notional build. I do think we are seeing a period of strong performance in terms of those hedge eligible balances, number one. We're also seeing a picture of strong rates. So our reinvestment rate, for example, over the course of quarter one was just shy of 4% in the context of the hedges that were being reinvested over the course of the quarter.

But coming to the final part of your question, Sheel, how much is that going to feed through into benefits in '26? Because of the nature of the hedge, which by and large is very similar to a caterpillar with a bit of flexibility here and there, we are currently pretty much locked into about 90% to 95% for '26. So much of 26 is locked in. And then consistent with what you would expect if you saw a caterpillar hedge, we were around 80% or thereabouts locked in for 2027. And so that gives you an idea as to how much these hedge benefits will feed through in the course of '26 and in the course of '27. Largely locked in for '26, about 80% locked in for '27. And in the context of higher rates, the benefits will roll through in accordance with that.

Question 5: Perlie Mong, Bank of America
Hello, good morning. Can I just ask a couple of follow-up questions on the hedge or maybe the NII guidance because volumes have been pretty good this quarter, and obviously reinvestment rates are higher. So you have increased guidance, but probably not by as much as we could get to if we were to apply today's swap rates, and maybe the rate outlook that we can all see on our screens. So I know you probably don't want to comment on exactly what the roll-off assumptions are, but maybe if I put another way, if we use today's numbers as we can see from our screens, would there be upside to guidance? Is probably the first question.

And then second question is about capital and distribution at the half year. So given the uncertainty, probably a little bit more prolonged than we might have expected a few weeks and months ago, does that change your thinking in terms of how you want to run your capital at the half year? I suppose what I mean is, would you like to hold slightly more capital in light of the uncertainty on the horizon? And also on the RWA side of things this quarter, a lot of it was just driven by lending growth without that much optimization activities, should we expect more of that coming through in the second quarter?

William Chalmers:
Thank you, Perlie, for those questions. There are, in a way, three questions there, actually one on the hedge, one on capital distribution, and one on RWAs. And so I'll take them respectively.

First of all, the hedge. We've seen a period, as we all know, of rates increases. We've also seen, just as I mentioned a second ago in response to Sheel's question, a period where we've increased the notional balance as a structural hedge because of the underlying eligible balance activity. The natural response to that is to see how that flows through in the context of net interest income. And that's why we've moved the guidance from circa £14.9 billion to greater than £14.9 billion.

Why have we stopped short of being more ambitious or necessarily giving a number? It's simply because as you know, there is a fair amount of uncertainty out there. The uncertainty is around rates. So as you know, the rates levels oscillate quite a lot on a day-to-day basis, number one. Number two, there's a bit of uncertainty as to activity. I don't think we see any dramatic downside. In fact, we have not seen any, to be clear, we have not seen any downside in terms of our lending activity over the course of the first quarter, or as we look forward to it in the context of April, and indeed beyond. So it's not like we have seen a dampening of activity, but we have revised down our economic forecasts, and therefore one might naturally expect a little bit of that, at least to follow. To be clear, we have not seen it yet, but that's what's kind of built into the expectations. So an uncertainty over rates, a little bit of uncertainty over activity, even if we haven't seen anything so far.

And then in terms of the numbers. As you know, we've given guidance on the impact of upwards changes in the context of rates. And I think at the year-end its around £100 million or so for a 25 basis point shift. Now, we had previously built into our forecast the expectation of a couple of declines in interest rates, which are now no longer going to be happening. So how does that relate to our guidance? Well, those declines were built in at various points in this year. I think one might have been in quarter two, one might have been in quarter three. Therefore, that £100 million per 25 basis points, if you like, it's only being arrived at as of around halfway through this year.

At the same time, we've got those uncertainties around activity and so forth, and that hopefully helps you square our greater than £14.9 billion with the type of guidance that we have given. One further point there, Perlie, to make is, we don't normally guide as of Q1. We don't normally update guidance, I should say, as of Q1. We've given the guidance that we have simply because what is evidently happening in the market, and we felt it appropriately to do so. But we don't normally guide as Q1, and hence we've taken the approach that we have taken.

You asked about capital distribution, Perlie. As you know, we're in the midst of a significant buyback programme right now. We've done about £700 million of the £1.75 billion buyback. That's obviously proceeding exactly as we had planned it to. We have committed to looking at the capital position twice a year going forward as opposed to the previous once a year. We're not going to stray from that commitment. That is to say we're going to keep that commitment. Now, how do we look at that in the context of management uncertainty? I would say a couple of things. One is that we are operating in excess of our capital targets right now. Two is that, as you know, we have built into our capital target, our long-term capital target of 13%, about 100 basis points, in fact, now slightly more than 100 basis points, of management buffer designed to accommodate any particular uncertainty.

Three is that we have a very capital generative business. You've seen it in the context of Q1, you'll see it more over the course of this year, you've seen it repeatedly over recent years. So a very capital generative business. And then further, fourthly, it is also a very low risk business. It is a high quality prime customer portfolio. As you can see repeatedly in the context of the AQR, and as you can see in the first quarter, once you get beneath the surface of the 25 basis points AQR, the underlying being 16 basis points. So management buffers built into our capital targets, a very capital generative business, a low risk book, gives us confidence in sticking with our

13% ambitions for the end of the year. And as said, we have a commitment to look at the capital position at the half year, and that's exactly what we'll do. Nothing changes, Perlie.

RWAs. RWAs, as you say, up slightly over the course of the first quarter, £5.3 billion, I think it was versus quarter four. A lot of that, as you highlight, has been driven by lending. So if you take out the hedges, you've got lending of about £6.3 billion over the course of the first quarter. That's really healthy growth. And as I said earlier on, we have not seen a slowdown in lending appetite amongst our customer base during the course of April. And so we expect that lending to continue. But lending over the first quarter, £6.3 billion. What else is going on in RWAs? We've got a bit of SRT amortisation during the period. We've got a bit of undrawn activity also during a period, which is a sign of healthy future growth. So for example, the mortgage pipeline has been very strong during the course of March.

That's led to commitments, and therefore undrawns, which will draw upon and complete during course of the second quarter. A little bit of undrawn increase also in the CB portfolio too. And then alongside of that, some rotation out of bounce back loans, as I mentioned earlier on, and into private sector, and therefore RWA weighted lending. And then further, growth within the LBGI investments business, LDC, Lloyds Living, that sort of thing has brought us a bit of RWA growth that is not lending related. Final point, as you said, Perlie, and as is right, this is a very limited optimization quarter. The first quarter usually is. I think we got about £0.6 or £0.7 billion of optimisation benefits within RWAs. That will ramp up as we go through the year. And so that £5.3 billion RWA growth that we've seen in quarter one, Perlie, is very unlikely to be anything like the same level as we go through the course of the year for all the reasons that I just mentioned. Perlie, hopefully that addresses your queries on hedge, on capital distribution, and on RWAs.

Question 6: Jonathan Pierce, Jefferies
Hi William. Thanks for taking the questions. Can I maybe just press you a bit more on the distribution outlook in the near term? The interim is obviously only a quarter away now. The buyback, at its current pace at least, is going to finish in August. And obviously, you didn't get Aegon UK, which according to the media, you were looking at. So it does feel increasingly likely that we'll get a top-up at the interims. Can you give us a little bit of help as to how you're thinking on calibrating this judgement at the half year stages, not just this year, but moving forward?

I guess if you get a 50 or 60 basis points capital build in the second quarter, a bit of dividend accrual, you're going to be exiting June at, I don't know, 13.7, 13.8%. Would it be sensible to think about that coming back in towards where we were at the start of the year, 13.2% / 13.3%, and then progressing down to 13% at the end of the year? I accept you may not want to be drawn on this, but it would be helpful just to get a sense as to how you are thinking of that.

Secondly, on the mortgage headwinds, the average margin across the second half of last year on the book was 85 basis points. I suppose it was closer to 80 as we exited the year, and it's clearly come down again in the first quarter. What's the spot margin on the mortgage book today? I don't know if you've got that number X for the SVR portfolio as well. I'm just wondering, when does this headwind genuinely finish? Should we be assuming there is no headwind at all going into 2027? In the past, you've talked about H2'26 as being the end of the headwind, but a bit of an update on that would be useful, thanks.

William Chalmers:
Thanks, Jonathan. Just to deal with each of those in turn, the commitment on capital ratios, as you know, is and continues to be 13% at the end of the year. As mentioned to Perlie, we have every confidence and every intention of distributing down to 13% at the end of the year, but it will of course be subject to board decisions at that time. So I shouldn't get ahead of myself in terms of pre-committing as it were, but there has been no change in terms of our ambition vis-a-vis 13% at the end of the year. You mentioned there, the buyback, the buyback current run rate is pretty much as we had expected. As you know, it tends to accelerate... Well, it is built in to accelerate at times of relative share price weakness. That is the way in which the algorithm works, and that is very intentional.

Currently, we've executed just over £700 million of the £1.75 billion buyback that we have in place. And as you observed, Jonathan, it is on track at the current run rate, concluding Q3. Precisely when, I guess, will depend in part upon the strength of the share price as indicated. If the board decides to do a second half buyback off the back of the excess capital position, then of course, the scope is going to be there. I don't want to, again, pre-commit the board. It'll be up to them to make the decision that they make, with me obviously as part of it, when that decision is right to be made. But there will be scope to do the buyback in the second half should they decide to do so. And if the current buyback executes and concludes during the course of August, then of course, you've got that calendar year as well as the capital capacity to execute.

You mentioned there the particular M&A situation, which I might just take the opportunity to comment on simply in the context of M&A broadly rather than anything more specific than that. We do look at opportunities in M&A, and occasionally, some will be strategically interesting to us. You mentioned a particular headline there. I don't want to comment on specificities, but some, on occasion, will be strategically interesting to us. We will subject those opportunities to tests around value, around speed, and around risk. That hasn't changed. Those value considerations will include concerns like dilution, will include measurements of return on investor capital, as well as the MPV or otherwise of any given M&A opportunity. The risk will include considerations of things like integration and migration concerns. And when we've looked at opportunities, including those recently, they have, for us at least, not passed those hurdles. They have failed those tests. And so we think that even if something is strategically interesting, it's very important to be disciplined. Having said that, if an M&A opportunity is attractive and if it passes those stringent tests, then we will execute.

And you've seen in the context of recent periods, we've done SPW late last year. We are in the process of doing Curve. We've done Tusker, very successful M&A transaction. We've done Embark in the savings area. We did a mortgage portfolio when I first came in. So again, where something is strategically consistent, number one, and where it passes the value/speed/risk hurdles, number two, then we will execute. But we take those hurdles seriously, and they have to pass. The mortgage margin point, Jonathan, the overall mortgage margins, as you said, have been about 70 basis points, completion margins over the course of this period. We've had a Q1 maturity out of just shy of 100 basis points. So you've got, therefore, a headwind of about 30 basis points for a new mortgage being written against an old one.

That hasn't changed too much over recent quarters. It's probably been nudging down maybe a basis point or two every quarter. So while it still fits the description of circus 70 basis points completion margins, just bear in mind that it has nudged down by a basis point or so. I think overall, I mentioned a maturity out margin there of about just shy of 100 basis points, just shy of 1% for Q1. I think that's going to be more or less the picture over the course of 26 based upon the book that we have. And so if you think that completion margins aren't going to budge too much, then you're going to see that type of headwind over the course of the year. You asked about the termination of that headwind, Jonathan. And we have, as you say, in the past, talked about H2 2026. I think it's been nudging a little bit outside of that over the course of recent quarters.

And right now, we look at that headwind basically petering out at the beginning of next year. So it may not be exactly zero during 2027, Jonathan, but it will be very largely taken care of by the first part of 2027. I won't be too precise on it, we'll have to see how things fare over the next couple of months. But certainly by the first half of 2027, potentially within the first quarter, you're done with it.

Question 7: Guy Stebbings, BNP Paribas.
Hi, morning, William. The first was on the mortgage market, more really from a demand perspective, as you've probably got as good visibility as anyone. And I guess Q1 was a good quarter for volume. Seemingly, there's been elevated approvals around the end of the quarter and start of Q2 for the industry. So certainly a good start to the year, but perhaps a pull forward of activity and rates may dampen activity from here, and you talk to yourself about lower HPI assumptions. So just interested really to get your view on what you're seeing on demand today, what your expectations are for the rest of the year, and if there's anything to call out in terms of mix effects, whether we might see more refi activity over first time buyer activity, which could have an impact on spread dynamics, as I guess was the case back in 2023 when rates went a bit higher.

And then the second question was on deposits. A little out bit of outflows on retail savings seemingly a conscious decision around term deposit market. I know you talked about competitive dynamics in that market back at the start of this year. So is that playing through as expected? I know we've got steady deposit trends in current accounts and instant access, so just checking that everything's running through as expected there. Thank you.

William Chalmers:
Thanks, Guy, for both of those questions. Just to take them in turn, mortgages, as you say, a pretty decent quarter, £1.6 billion up. And that was actually in the context of a significant maturity quarter. So the gross lending was particularly strong. That was offset by a lot of repayments, the net of that being £1.6 billion up. And we think our market share over that period was about 18.5% to 19%. So pretty much in line with what we would hope for in the context of strong lending growth. I think the other point that's worth making about the first quarter, Guy, is because rates rallied in the way that they did, we saw quite a lot of application activity from a customer perspective, i.e., potentially some bringing forward of applications that might have otherwise happened in quarter two into quarter one. And so a sharp uptick in applications, which in turn will feed through into completions for Q2, at least a good part of them will do.

And so off the back of that, the pipeline for mortgages is probably a touch stronger than we had expected it to be going forward into the remainder of this year, Q2 and potentially beyond. Now, two points to add to that. One is we've recently done a securitization on the mortgage book. That was within April, and therefore will qualify within Q2. And so you may see a slightly flatter performance in mortgages in Q2 than would otherwise be the case, simply because the securitization activity is offsetting what is otherwise good, healthy new lending activity, or net new lending activity. So just bear that in mind. And then the second point is, the effect of higher rates on housing activity may be a little bit to be felt. Again, we're not trying to suggest that we've seen it so far, we certainly haven't. We've seen strong secured, we've seen strong unsecured continuing into this quarter. But maybe the effect of rates takes a little bit of an impact in the course of the second half, let's see, let's see.

So I think strong activity in Q1, expected continued strength into Q2 off the back of what I've just said. Bear in mind that cosmetic point that I just made around the securitization, and then we'll just see how the rest of the year proceeds off the back of what has been an encouraging start, frankly. You asked in that context about margins. Consistent with my comments to Jonathan just there, margins continue to be generally in pretty good shape. And probably, I would say, they end up typically in slightly better shape than we think they're going to be when we start the quarter. That's been the pattern over the recent quarters. Let's see whether that carries on or not. I do think a couple of points are worth bearing in mind. One is the standalone returns for us on those types of margins, given our scale, is perfectly respectable. But also, as you know, we seek to augment it and supplement it in the context of our consumer or customer relationships.

So for example, we've been working hard on ensuring protection take up rates. Likewise, home insurance stands alongside the mortgage offering in the context of our strategy. And that's been a big part of our investment process over the course of the '22 through '26 period. So we're trying to augment the overall relationship, that's one point. The second point is, as I'm about to go onto, we have seen a pretty competitive fixed term market over the course of the first quarter. And I would have thought that as that competition reflects itself, it may be that some of that comes out on the lending side because people like us see their margins in a very holistic way. So possibly, a more competitive deposit market finds its way through into a slightly more benign mortgage margin market. Let's see.

Guy, you asked about deposits. And as you say, we've taken a very conscious decision as you rightly pointed out in terms of our overall participation decisions within the deposit market. But maybe just to take a step back. Overall, as you know, modest reduction of £0.6 billion over the course of the quarter. Stepping back further, actually there's an £8 billion increase, 2% increase over the course of the last year. Behind that, there's decent CB performance, £2.3 billion up, and it's then slightly slower in retail. Within retail, the areas that really matter to us, PCA has shown strengths, £0.6 billion up off the back of strong propositions. Very important to us for all the reasons that you know about. Likewise, instant access, really solid over the course of the quarter. And so within savings, where we have chosen not to participate so aggressively is in the fixed term market.

And in the fixed term market, we have, as I mentioned in my comments earlier on, seen a very competitive market, probably a touch more competitive than even we expected at the beginning, and indeed, at times, a negative margin market. And so we've chosen not to go forward, and expend negative margins, but rather focus on retention off the back of what was a very strong ISA season in '25, we aim to retain about 90% of that. And then alongside of that, invest in our customer franchise, invest in our most valuable relationship customers. And we're achieving those goals. And you can see it come through in the context of the other activities that I mentioned a second ago. So I think, Guy, what we're looking to do is to deliver good value for the customer franchise in a way that makes sense without spending too much money on what is often relatively mobile, non-relationship money in the fixed term market. And that's what's behind the deposit outcome.

Question 8: Ben Caven-Roberts, Goldman Sachs.
Morning. Thanks very much for the presentation. Just one follow-up please on your comments around activity versus rates and the trade-off there. So you've removed the two rate cuts that you previously had in your forecast, but if we look at market pricing, the market's got about two hikes in at the moment. If we were to see those hikes materialise, which segments of the book would you be looking at most keenly, whether in terms of changing activity levels or in terms of changing asset quality? Thank you.

William Chalmers:
Thanks, Ben. Look, just one point to be clear on upfront, really, which is that the activity levels that we have seen in the first quarter and the activity levels that we continue to see in the second quarter have been, I would say, at least as, if not better than our expectations. Our point really around activity is simply to say, as we look out, we've got slower GDP expectations, and therefore one would expect that to have some impact. To be clear, not totally offsetting the beneficial impact of the rates picture that we've seen, which is why we have increased the guidance to greater than 14.9 billion as we have done this morning. But Ben, you asked about if rates were to be hiked as the market suggests, or implies rather, versus our expectation that there will be no cuts in rates and rates will stay exactly as they are.

The overall expectation, we've given sensitivities on in the past, and that in turn suggests, I think at year-end, we said that a 25 basis point shock across the curve was about £100 million or so of benefit from net interest income point of view. Where might that weigh? It's a little hard to say precisely the sectors upon which that might impact, but one can think about long-term investments potentially as an example of that. One can think about potentially HPI acceleration being dampened down a little bit by that type of thing. I think it's those types of points, really. You asked about asset quality. I would not expect those types of rates increases to have any meaningful impact or any discernible impact on asset quality, frankly, Ben. We've seen a period of incredibly resilient asset quality off the back of what is a very prudently positioned book that is rigorously stress tested for rates that are much higher than anything that we see in the market right now, and anything that we prospectively see going forward.

And you can see that manifested in the context of the performance of the book today. You can see that taken account of to the extent that it causes any impact in the context of our MES that we put in place today, i.e. the £101 million net MES increase. Ben, when I think about on the retail side, for example, our mortgage borrowers, the average is in excess of £85,000 household average income. The loan to deposit ratio is about 45.4%. Every mortgage is rigorously stress tested, as I mentioned, for rates that are well in excess of where we are today. So I don't see much stress there. I could work my way through the other parts of retail portfolio and say much the same. When I look at the CB, the commercial banking business, 81% of CIB exposure is investment grade. 90% of the SME exposure is secured. Roughly 70% of that is less than 60% LTV. This is a robust book. It is not going to get troubled by 25, 50 basis points of interest rate increases.

Question 9: Christopher Cant, Autonomous.
Good morning. Thanks for taking the questions. If I could just come back on deposit competition, please. It's obviously been an area of concern for some investors looking at UK banks. And I guess people think back to second half of '23, which was the last big negative surprise with regards to customer behaviour and churn into fixed versus expectations at the time. I'm conscious that your rates assumptions are some way below market per the previous question. What level of rates or in particular forward swap rates do you think we would need to see to generate an equivalent sort of negative surprise around customer behavioural churn?

So conscious that in mid 2023, I think the two-year swap peaked at about 6%, but we have had a move up, meaningful move up so far this year to mid 4s, I guess. Is there a level you have in mind where you would start to get nervous that we could see a further wave of fixed migration at a system level? Because it feels like at the moment, you're standing back from that fixed term market and accepting minor volume attrition, but it's not really impacting your book.

And on a related point, in the past, you've given us some colour, not necessarily a specific number, but some colour around the proportion of your book, which is in fixed term or, I guess, limited access now is quite big for you products. If you could give us an indication of where we are now on that, some of the other UK names do give more clear cut disclosure on X percent of the book is fixed term. It would just be helpful as a point of comparison. Thank you.

William Chalmers:
Sure, thanks, Chris. I'll answer your questions probably not as fully as you would like, but I'll answer your questions to the extent that it's kind of consistent with our approach.

In respect of the fixed term stance, it is, as you say, just a rational way of looking at the market. It's the right approach from our perspective to ensure that we get strong retention from the very strong ISA participation that we saw last year and indeed focus value upon our relationship customers. So that is very consistent with the previous comments and indeed your comments in the question.

From that perspective at least, we don't think it makes sense. It's not rational to necessarily focus on what I described earlier on as mobile non-relationship money. And so we've taken that decision, while at the same time seeing very strong performance in the context of PCAs and indeed instant access performance.

You asked about whether there is a level at which certain rates move where we start to become worried about churn. I wouldn't want to put a precise number on it. Safe to say that I think it is a very different picture now versus '23 on the basis that in '23, we saw rates go from 0% to in excess of 3%, and that is a meaningful jump. And all of a sudden you see people think, "Well, maybe it is worth putting something into term deposits and the like, versus rates going from, let's say, 3% to 4%, and obviously rounding numbers. But I think there is a meaningful difference between what we saw in '23 versus what we're seeing today. So I wouldn't put a precise number on how high rates have to go before we see an equivalent shocked '23, I suppose, but I think it's a long way beyond where we have gotten to so far.

Chris, was there another part of your question which I have missed in terms of my answer? Oh, you asked about the proportions of books, didn't you?

We haven't typically given proportions of books. As you know, we've got about £496 billion of deposits. We've got about £322 billion of those in retail, and about £104 billion, £103.4 billion to be precise, in PCAs. And then we haven't really broken down the savings book much beyond that. Safe to say that what we've seen over the course of the last period or so has reduced slightly the overall fixed term and indeed limited withdrawal or restricted variable as we often call it book. Not by terribly much. As said, it got significantly increased over the course of Q1 2025 because of the strong ISA season that we saw. And we've simply ended up in the space that we intended to ended up, which is roughly 90% retention of that.

We haven't split the book before, Chris. I don't think we're going to necessarily start now, but you can see from our approach at least that it's still making a lot of sense for us, still making a lot of sense for customers, and it's still making a lot of sense for shareholders.

Question 10: Andrew Coombs, Citi.
Morning. I'm going to try and ask a couple of cheeky questions ahead of the July strategy updates. But firstly, on loan growth, you're seeing very constructive trends in the quarter. You've talked out the strength, particularly in what you're seeing in commercial. It's obviously notable that Barclays is an explicit loan growth target into their strategy update. NatWest has come out with its 4% growth ambition as well. So I think you're the only one of the large domestic banks not to have a specific volume growth target. So is that something you would consider with your strategy update?

And then the second question, just on rate assumptions, you talked about it being a very uncertain world. And certainly your last capital market there was a case in point. I think you had the Russia-Ukraine conflict starting a month after your strategy day. But if I go back to that strategy update, I think you used rate assumptions that at the time were actually below the forward curve. Is that something you would do again? Would you use the forward curve? How do you think about your forward-looking rate assumptions in any long-term strategic plan that you are making?

William Chalmers:
Thanks, Andrew. I won't talk too much further about the strategy update, not least because my boss would probably fire me if I went into too much elaboration on it. But maybe just to comment briefly upon your points.

Loan growth, first of all, as you say, we've seen healthy loan growth in the course of quarter 1. We saw £22 billion loan growth, lending growth, that is last year. We've seen 6.3 billion over the course of the first quarter. That's after knocking off hedges, and that's about 1.2%. That's good to see.

I don't think we'd necessarily expect to see £6.3 billion repeated over the course of Q2, Q3, et cetera. I think we did see some activity in the first quarter, which is pretty strong. And as I say, not necessarily going to be the same number over the course of quarter 2, through quarter 4. That's across the book. That's retail and commercial too.

When we look forward, we'll obviously come to talk about it more in July. We'll consider what the overall ambitions are and indeed what it makes sense to give you as guidance in respect of those types of asset expectations. But I would say, Andrew, and hopefully this won't surprise you, that we manage the business for a combination of constraints. And those constraints are not just around expanding the balance sheet, but they're also around profitability. And so we'll measure, we'll calibrate carefully what we think it is sensible to talk about with you in the context of the set of rounded constraints that we try to maximise.

The second question in respect of rate assumptions, if we set out the assumptions that we had at the beginning of the year, they were obviously below the rate assumptions, or sorry, the rate outcomes that we have seen as of now. And that is maybe not surprising in the context of our upping our net interest income guidance from circa £14.9 billion to greater than £14.9 billion. We started out the year with a set of rate assumptions. It is now the case that those rate assumptions are in excess of where we are today.

As we plan, we typically take a relatively prudent approach to our overall rate assumptions because we do not want to build in overly, or rather, significant degrees of optimism into our net interest income guidance to ensure that we are able to deliver what we say that we're going to deliver.

So I think in general, you should expect us to err on the conservative side for rate assumptions versus what the market may necessarily be expecting. There is this anomaly going on right now whereby the market is expecting hikes and we're not. I think that is as stretched as I've seen it over the course of the time that I've been doing this job. But typically we will be erring on the conservative side of where the market might be coming out for fear of otherwise building in too much optimism into guidance that we give you when our intention is to fully deliver on our guidance.

Andrew, I might stop there, but hopefully that gives you some insight.

Question 11: Ed Firth, KBW.
Morning, everybody. And thanks for taking my question. I just had a slightly broader question really around the Iran conflict and the fallout from that, because if I look at that, it seems that both you and I guess Barclays yesterday, what we're saying is that the UK economy takes a whack, but for banks, a profitability goes up and growth goes down, but actually the profitability growth increases will be more than any growth slowdown.

So I'm just wondering, you all met with Rachel Reeves last week. How comfortable are the government, do you think, with that as an outlook for the bank sector? I don't know how much of these meetings are private or not, what you can sort of elucidate to us about what their thinking is about how they may see the bank sector helping the economy in what is clearly a very tough time. Thanks very much.

William Chalmers:
Thanks for that question, Ed. Maybe I'll take the two points somewhat separately.

First of all, in respect to the Middle East impact, as you know, and as won't surprise you, we have very limited direct exposure to the Middle East. That is to say, sovereign exposure to a very limited extent, and that's really about it. So very limited direct exposure, and certainly nothing that we would expect any impact from off the back of the Middle East conflict.

It has, as I mentioned earlier on, had no discernible impact yet on the level of lending demand from our customer base, either on the retail or the CB side. And so we haven't seen that in Q1, we haven't so far seen it in Q2. And by extension, neither has it had an impact upon our asset quality. If we look at asset quality for the first quarter in terms of the observable performance, and certainly what we've seen so far in the second quarter, but we also look at things like early warning indicators, either in the retail space or alternatively in the commercial space, we do not see the impact of the Middle East conflict coming through.

Early warning indicators, as you know, they're pretty extensive in terms of the types of things that we look at, but things like sentiment drivers, savings withdrawals, refused payment notifications, unarranged overdrafts, these types of things in the retail space, no impact. Likewise, mortgage term extension.

Within the CB space, SME loans in arrears, overdraft utilisation, RCF utilisation, no impact. Liquidity levels still look pretty healthy. So we're not seeing any impact there either, but we have embodied it in the context of our MES expectations, as we talked about a couple of times on this call. And that feels appropriate. And therefore, consistent with those MES expectations, you see some indirect impacts on confidence or on activity just as a feed through. We haven't seen them, but that's what's built in effectively to our MES. That's the kind of first part of the discussion.

The second part around how does that impact upon discussions that we have with various other stakeholders in the economy, and as you say, there are conversations that happen, which I won't talk about in great detail, but I think overall, the intention of Lloyds Banking Group is very much to be there for our customer base. We have every intention of ensuring that we are able to support the economy, both in terms of lending so that we can help the economy grow, and in terms of any customer support that might be required if the economy gets slower.

And so I think that diffuses the tension really. From our perspective, at least, there's no tension between trying to drive profit in the bank versus trying to drive support for the economy. In fact, one leads to the other. That is our purpose. That's what the business is set up to do. And the more that we can work with government in terms of opening up new fronts for customer propositions, investing in some of the key sectors that they're interested in, whether it's infrastructure, housing, or any other areas, the more that we're going to do that.

And alongside of that, as you know, we have a lot of discussions with the government and other stakeholders around the capital regime within the UK. Our objective in having those conversations about the capital regime with the government, with other regulators, is to ensure that we're able to simultaneously secure prudential stability, but also sponsor growth within the economy. It is always about trying to make sure that we can lend more effectively into the retail and the commercial economy. And again, Ed, I think that diffuses the tension. To us, the profitable banks succeed in successful economies. That's what we want to do.

Question 12: Amit Goel, Mediobanca.
Hi, thank you. I've got two follow-up questions. One is just coming back to a comment earlier in the call. I think you mentioned that in terms of retail products, there's some new products, and that should have some positive contributions. So just curious again, what those products are and how much contribution or when that comes through.

And then secondly, just to clarify, just checking the latest on CRDIV, is that basically fully done and/or if there's any kind of review that could be relevant also for Q2? Just double checking on that. Thank you.

William Chalmers:
Thanks for the questions, Amit.

On the retail space, as I think we have commented, our retail growth over the course of Q1 was around 6% or so year-on-year. That's showing very strong growth within the transportation sector, likewise, a little bit of benefit within the mortgages sector, but it is being slightly held back by essentially product incentives within the retail space, which it's a combination of things really, Amit. It's packaged bank account incentives, the type of offerings that we give to customers in the context of packaged bank accounts. Likewise, some Lloyds wealth benefits, and likewise, some current account benefits.

And in turn, we expect those to essentially accrue income gains over the course of future periods. I won't put a kind of precise date on it because actually it gradually accrues over time, but we should expect two things to happen really. One is those switches or those benefits have been concentrated somewhat in Q1 versus where we expect them to be over the course of the year.

And so that headwind attenuates going into quarter 2. And then second, the income benefits from that, because we've seen very strong account growth off the back of those offerings, those start to build from now on really. There's a little bit of that in quarter 1, but it builds solidly over the course of this year and indeed into next.

Amit, you asked about CRDIV. CRDIV, as you know, is something that is culminating over the course of this year. We've now submitted our models to the PRA. We have a range of what we believe to be very robust assumptions in the context of those models that we are going through with the PRA. The final impact of CRDIV is, of course, subject to their agreement, and we'll see where we end up on that. Overall, at the moment at least, we're not expecting a significant or material hit for CRDIV in the remainder of this year, but we have to see whether PRA lands in respect of finalising model outcomes.

Operator:
Thank you. There are no further callers.

William Chalmers:
Just to say thank you very much indeed for taking the time, enjoying the call as usual today. And we hope you have a good rest of the day. Thanks very much indeed.

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