

LLOYDS BANKING GROUP PLC – Q3 2019 INTERIM MANAGEMENT STATEMENT – TRANSCRIPT

(amended in places to improve readability only)

Thursday 31 October 2019 – 9.30am

LBG PRESENTER:

William Chalmers, Chief Financial Officer

William Chalmers

Good morning everyone and thank you for joining today's call. You will recognise the format of the call from previous quarters – I am planning to give a brief overview of the Group's performance and we will then open up for Q&A.

Before I get into the presentation, I thought it important to say that since starting, I have been hugely impressed by the customer-focused culture of Lloyds, the strength of the franchise and the quality of the team.

I want in that context to express my thanks for the warm welcome and very supportive environment I have experienced across the Group.

So, with that said, turning to the first slide.

Our financial performance has been solid in a challenging environment. Statutory profit before tax of £2.9 billion for the nine months is down significantly, largely due, as you know, to the additional PPI charge of £1.8 billion in the third quarter.

Underlying profit, in the meanwhile, of £6 billion is down 5 per cent while the underlying return on tangible equity remains strong at 15.7 per cent. Revenues are down 3 per cent whereas total costs are down 5 per cent and we have again enhanced our operating cost guidance for 2019.

The statutory profit and return on tangible equity of 6.8 per cent are obviously impacted by the PPI charge. TNAV of 52 pence per share is down 1p in the year.

The Group built 149 basis points of free capital in the nine months before PPI, dividends and the acquisition of the Tesco book. We have also seen, a small reduction in the Pillar 2A requirement in the quarter, although we are currently not revising our capital target of circa 12.5 per cent with a management buffer of around 1 per cent.

Given our capital strength, we continue to target a progressive and sustainable ordinary dividend.

I will now turn to look at the financial performance in a bit more detail.

Turning to slide 2 you see the overall performance.

The net interest margin of 289 basis points has fallen 4 basis points year on year and 1 basis point in the quarter.

This quarter, the NIM has benefitted by a couple of basis points from the previously-planned alignment of MBNA product terms with the rest of the credit card business. I expect a further benefit into the next quarter and with this included, we expect to end the year with a full year margin of 288 basis points, in line with the guidance of around 290 for the year.

In looking at the margin, we are maintaining our active approach to managing the balance sheet, including small tactical acquisitions such as Tesco, to partly mitigate the impact of rates and the competitive environment we see.

Given these rates, we continue to largely hold back from reinvesting the structural hedge, which remains at £172 billion. Our hedgeable balance is around £185 billion, and that gives us a degree of flexibility should rates rise.

Other income, at £1.3 billion in the quarter, remains tough, and I expect the trends behind that to continue into Q4.

In terms of the divisional performance in other income, as we mentioned at the half year, we continue to see a challenging backdrop for our Commercial markets businesses and lower fee income in Retail than last year, the latter being significantly driven by lower fleet volumes in Lex Autolease.

Insurance, on the other hand, is continuing to perform well but is also impacted by rates. We will not see a recurrence of the benefit from the change in asset manager, which we experienced in the first half. Likewise, longevity changes have recently been reported in the first half, as indeed they were this year. Central items are also down a bit, partly due to lower gilt sales, as we flagged previously.

Given the revenue environment we are seeing, we very much maintain our focus on operating cost reductions. Since arriving, I have been very impressed by the Group's methodical focus on costs. In-sourcing of contract staff and the implementation of e-auctions are two good examples of successful initiatives pursued in this area.

In this context, total costs are down 5 per cent including the lower remediation charges. Within that, BAU costs are down 6 per cent while our market-leading cost:income ratio has improved again, to 46.5 per cent.

Our relentless focus on the cost base means that we now expect operating costs to be less than £7.9 billion in 2019. This is the second time that we have updated the Group's cost guidance for 2019, and this is alongside continued investment in the business. Cost reductions obviously help to offset some of the impact of the challenging revenue environment. It is something we will continue to concentrate on in the future and it will remain a source of competitive advantage for the Group.

Now turning to slide 3, I will briefly take a look at credit.

In Q3, the gross AQR was 40 basis points and the net AQR was 33 basis points. Both, as you can see, are impacted by a large single name charge in the quarter, which was a top-up of one of the two cases we highlighted at the half year. Excluding that charge, both AQRs have remained low and stable over the last few quarters and we continue to expect the net AQR to be less than 30 basis points for 2019 as a whole.

Despite the ongoing economic uncertainty, underlying credit quality therefore remains strong and we maintain our prudent approach to risk. New to arrears, for example, remain low across key products such as mortgages and credit cards, for example.

We are also continuing with our conservative approach to IFRS 9, with relatively severe economic assumptions maintained in our MES modelling approach. In this context, Stage 3 balances have remained stable at 1.9 per cent of Group loans and advances, while coverage is in line with year end at 24 per cent.

So I move on and look at below the line on slide 4.

The restructuring charge has continued to reduce and is down 54 per cent on last year as the MBNA integration and ring-fencing work are now complete. Volatility and other includes FX-related banking volatility and the charge in Q1 for the change in asset manager.

The PPI charge of £1.8 billion is, obviously, significant and very disappointing. As we disclosed in September, like the rest of the sector we received a huge spike in information requests in the days leading up to the deadline.

We have now completed the work to assess volumes, which were at the high end of expectations. Quality remains low and PIR conversion is still averaging around the 10 per cent mark that we talked about previously, though we have seen some variation across time periods on this front.

We have also included within the £1.8 billion a charge for the Official Receiver.

Moving down, the higher effective tax rate of 33 per cent year to date reflects the non-deductibility of certain PPI redress costs. Beyond this, we continue to expect a medium-term effective tax rate of around 25 per cent.

Looking briefly at returns, as I mentioned earlier the underlying return on tangible equity remains strong at 15.7 per cent, while the statutory return of 6.8 per cent has been clearly impacted by PPI.

Looking now at the balance sheet on slide 5.

We have seen good growth in the quarter. The open mortgage book is up £6.1 billion on the half year, including the £3.7 billion Tesco book acquisition. Strong underlying growth of £2.4 billion is the result of increased new business flows, as we took advantage of a more favourable market over the summer.

We maintain our focus on pricing with discipline and we will write business when it looks attractive. This is part of the active balance sheet management which I referred to earlier on.

The strong third quarter and the Tesco acquisition mean that we now have greater participation flexibility, and with this all included, we expect the open book to end the year above 2018 levels.

Elsewhere, we continue to grow in our other targeted segments. SME, for example, is up 2 per cent on the prior year while Motor Finance is up 8 per cent, about 1 per cent above the market.

We also continue to attract high quality deposit balances and total current accounts are up 3 per cent on the prior year. Within that, there continues to be a material outperformance in UK personal current accounts, which are growing about 50 per cent ahead of a highly competitive market.

As you've heard, this has increased our hedgeable balance to about £185 billion, of which around £13 billion is currently unused.

RWAs are up £3 billion in the year to date, with the impact of IFRS 16 and the Tesco acquisition largely offset by the ongoing optimisation within the Commercial portfolio.

And so finally we turn to capital on slide 6.

Capital build remains healthy, as illustrated by the Group delivering 149 basis points of free capital before the impact of PPI and Tesco.

The Group's organic capital build is supplemented by 34 basis points from the cancellation of the in-flight buyback and additional capacity from the year on year 50 basis point reduction in the Group's capital target to circa 13.5 per cent. Meanwhile, we have used 9 basis points of capital for the acquisition of the Tesco book.

You can see we expect the Group to build circa 75 basis points of free capital in 2019 net of PPI charges, which equated in total to 121 basis points. This implies that the underlying capital build after PPI for the year is likely to be slightly below the guidance that we gave at half year.

We were pleased obviously to see the equity component of our Pillar 2A charge come down by a further 10 basis points this quarter. That came after the Group had announced a lower capital target of circa 12.5 per cent plus a management buffer of circa 1 per cent at Q1. That said, we are currently maintaining our Group target, but in effect we now have an additional 10 basis points of capital headroom to our regulatory requirements.

As I mentioned earlier, given the Group's capital strength, we continue to target a progressive and sustainable ordinary dividend while staying comfortably above the Board's capital target.

So turning to the last slide.

In conclusion, the Group has the right strategy for the current environment. We continue to deliver against our strategic priorities, having invested £1.7 billion since the launch of GSR 3 in 2018. In this quarter, for example, we have launched Schroders Personal Wealth, with the ambition of being a top 3 financial planning business by the end of 2023.

Our business performance, as you can see, and returns remain solid and the resilience of our business model is reflected in our 2019 guidance.

We obviously acknowledge the pressure from the external environment, for 2019 we expect a net interest margin of 288 basis points, in line with our guidance of around 290 basis points for the year.

For 2019 we now expect operating costs (excluding remediation) to be less than £7.9 billion, ahead of our previous guidance, and with a lower cost:income ratio than in 2018. We also expect the net asset quality ratio to be less than 30 basis points.

Given the PPI charge in the quarter, we expect free capital build to be circa 75 basis points for the year and, as I have said, we continue to target a progressive and sustainable ordinary dividend.

Overall, the subdued environment is having an impact on the economy and therefore inevitably on our business. Continued uncertainty could further impact the outlook. In this context, and as ever, we continue to maintain our focus on prudent growth, reducing costs and investing in the business.

Even in an uncertain environment, our solid business performance and continued delivery against our demanding strategic goals mean that we are well placed to support our customers and to continue to Help Britain Prosper.

That's all I wanted to say up front and so we now have time for Q&A.

Question 1 – Jason Napier, UBS

Good morning, thank you for taking my questions. Two please. The first. Other operating income was a little light and quite a lot below market expectations, but with the divisional trends you are outlining I don't feel like they are the sort of thing that might change in the near term. Is it your expectation that we should be annualising the third quarter run rate?

And then the second question, and I guess this is somewhat linked to the first, is around the look forward for capital generation. The implications of your full year target are you are expecting to be pretty much back at the 200 basis points a year capital generation number. I just wonder looking forward at 2020 whether that sort of through the plan aspiration remains appropriate, whether there are any moving parts around regulatory change or other foreseeable items that might change that? Thank you.

William Chalmers

Thank you Jason. Maybe I will deal with them in the terms that you asked them. The other operating income. As I said in my comments, the other income environment remains tough. Those trends or factors behind those trends I should say, we expect to continue into Q4. At the same time just to look at it in a bit more detail. If you look at it as four lines really. Commercial is under pressure again as I indicated in my comments from markets. Last year is a relatively tough comparative. The Retail business which is pretty much steady and the Insurance business which no doubt will go up and down in any given quarter. But there is some strong structural support in the benefits from organic changes in the first half, e.g. auto enrolment and some one-offs, e.g. the change in asset manager benefit, some experience gains and longevity gains in particular.

So finally the fourth area which is Other, which benefited in H1 from gilt gains and a little bit from LDC in 2018 as a comparative. I think that gives you some idea on the trends behind the numbers. In terms of annualising Q3 I am not going to give guidance on this call for 2020, we will save this for the year end results in the first part of 2020. But I would be careful before annualising that other income trend from Q3. Now the reasons for that I think are in the trends analysis that I talked about earlier on. That is to say Commercial as I think a lot of businesses are right now, is under some pressure in markets and there is not much investment activity going on. That is being reflected in some of our Commercial lines. You know we certainly hope that environment clears up going into 2020 and with it the commercial and markets business we expect will come back.

Retail as I said I expect will be flattish. Insurance as said, it has some structural growth drivers. I think importantly you also typically see longevity and other experience gains in the first half as we saw this year.

And then of course the central items, gilt gains and others. They are always difficult to predict, but they will go up and down and in this quarter in particular they were basically nothing. In the last quarter and earlier on this year they were more considerable.

So I would just be cautious before annualising Q3 into 2020 as a whole.

I think the second question you asked went to capital generation of the business which as you know is close to the heart of this business and is an issue that we take very seriously. The comments that I will make again, I'll steer away from being too explicit on 2020 guidance, but the comments that I will make will hopefully give you a picture. It is a strongly capital generative business as you know. The business model is very capital generative. If we look at this year we have got 75 basis points for the full year that I mentioned. If you add back the 121 basis points that we consumed in PPI charges one way or another and you can see the total capital generation adding those two together is well within the 170-200 basis points range that has been indicated.

I think next year there is no doubt we will see a tough external environment and everybody is saying the same thing. But we have also got levers to pull that help partly mitigate that and we have been successful in doing so in the third quarter. It is most obviously cost as you have seen in this quarter and the Group has a strong reputation for. That will help mitigate some of the external pressures and obviously we don't expect the PPI charge to be repeated.

I think just adding to that, we are moving our base case to a better outlook on expected RWA headwinds. It was talked about £7 to 10 billion range at the half year. We are looking right now at the bottom end or possibly slightly below that. We will give some more updates at the 2019 Full Year Results. And that obviously helps. So I will give more guidance at the 2019 year end in 2020 or that is when I will give the guidance I guess in accordance with our usual planning process. But I think overall I don't expect the capital generation, or the capital generation characteristics of the business, to have changed too much. And hopefully that gives you a picture.

Jason Napier

Thanks very much.

Question 2 – Raul Sinha, JP Morgan

Thanks for taking my questions. Just to clarify then William on the other income line and why we shouldn't be annualising it, but you do think that some of the headwinds that you have seen in Q3 will persist into Q4, is that the fair conclusion then?

William Chalmers

So Q4 I think it is for the time being a fair conclusion. You know again if I look at the drivers of that, Commercial it is an obvious one. We would have liked to see, frankly a bit more stability in the external environment. It now looks like we are going to go through a questioning period I suppose as the politics get resolved and with it the nature of the macro economic environment that we will have to deal with. But I think there is evidence in the Commercial business that investment decisions have been holding back and with that a lot of the market activities in our Commercial businesses are driven. The absence of investments has a number of tail features around it in terms of hedging activity and other things that our clients would typically do. And in short we are not seeing much of it.

We do think as the macro economy settles down and then we expect to see some of that return, but obviously the macro economy will settle down only when the political questions are resolved. That is one reason why I think it is as it is for Q4, but we would hope it comes back during the course of 2020.

Further question

Can I check if you have changed your appetite around bulk annuities at all, you know given that is a particularly volatile hard to predict line within the other income that tends to bob up and down? And historically we have seen quiet quarters being followed by some strong outcomes. So is there any change in the bulk annuities pipeline?

William Chalmers

No not really Raul, bulk annuities is obviously an important area of the business, it has also got some particular tail winds behind it. I think what you do see with bulks is timing issues, you know you will get more in any one quarter or less in any other quarter. And if you look at our Q3 we didn't get much. We are engaged in bulk activity and will expect to see a little bit more of that in Q4 but that is simply because when deals get signed. It is not any more precise than that really.

The one comment I would make on bulks, is there are two sides to them. One is obviously the pricing of the bulk asset if you can call it that. And then the second is the actual assets you get to back up the bulk when you bring them on the balance sheet to earn a return. We typically are quite cautious on both. That is to say we don't tend to enter the bulk markets when we don't think we can earn a decent return on the pricing of those bulks. Equally we have quite strict liquid asset constraints, simply because of the prudent risk appetite, and that allows us to do the bulks when we think they make sense and it also constrains us from not doing bulks when we don't think they do.

So each of those two factors play into it. But I think no change in risk appetite, you will see bulks going up or down on a quarter by quarter basis simply by virtue of the timing of certain deals.

Further question

Thank you. Can I just quickly clarify the Motor Finance charge in the quarter. Would you be able to give us any sense of how big it was and is that driven by the growth in the book? If you have you got any thoughts in terms of sensitivity of the business that would be really helpful? Thank you.

William Chalmers

Sure. The Motor Finance charge, I won't put a precise number on it, but the Motor Finance charge has been a component of the impairment charge we have seen in this quarter. In fact we have seen a little bit of it in the earlier quarters of this year as well and it is driven by basically second-hand car prices. That in turn is driven by supply side as much as demand side, which is to say

there was quite a lot of new car input of flow into the market about three years ago or so. Now that was all put on three year contracts and it bounced back as a result in 2019 and caused some softening in prices off the back of that supply site. Demand side of the equation, just like any other consumer durable, the commercial investments that we were talking about earlier on is a little bit constrained in the context of uncertain macro economic environments. There is demand side effect there too. The only point I would make in addition to that is we have seen that fortunately coming back a little bit just recently. That is to say we saw some downward pressure in the first three quarters. The data at the moment is indicating a slightly more positive turn and improved prices. I don't want to call that just yet because it is just too early to say, but it is looking better recently versus what we have seen in the first three quarters of this year.

Raul Sinha

Thank you very much, that is really helpful.

Question 3 – Joe Dickerson, Jefferies

Good morning, thank you for taking my call. I guess just a quick question would be on the capital return. If the capital generating characteristics of the business haven't deviated from the prior underlying trend, what would be the hurdle to you distributing down to your revised capital target plus 100 basis points buffer when we get to Full Year results, firstly.

And then secondly, just on the Lex Autolease comment on the other income, is there anything going on there that is structural or is that more of a trend, linked to for instance the same trend that is driving corporate activity?

William Chalmers

If I just deal with the first of those two. The capital generation is as I described earlier on which hopefully is useful. As we look towards the year end, as you know the dividend is incredibly important to us and I have made several comments today that indicate our commitment to that dividend. We expect and you will be able to do the arithmetic if you like from the numbers that I have given you that we will be comfortably above the Group target or the Board's target in that context, and let's see. But to the extent that gives rise to excess capital, that goes beyond the commitment to the ordinary dividend, then that is very much a matter for the Board towards the year end. And they will take a view on any buyback considerations at that point. But we do feel very comfortable as to the capital position. We have a complete commitment to the ordinary dividend. Matters around buyback and distribution of excess capital beyond that.

In the light of the current capital targets in light obviously of the Pillar 2A benefit that I mentioned earlier on, that is all a matter for the Board towards the year end.

The second point around Lex Autolease, we have seen in Lex Autolease a bit of a reduction as mentioned I think in the Interim Management Statement around the overall fleet size there. That is a function of two things. In the main it is a function simply of corporates revising their company car strategies and that obviously drives Lex Autolease performance or at least stock. And then to a degree at least we are also making sure that our pricing lives up to our margin expectations and RoE requirements which allows us to deliver a healthy business while also allowing us to grow and succeed in the marketplace. So hopefully that gives a bit of colour on that business.

Joe Dickerson

Thank you.

Question 4 – Fahed Kunwar, Redburn

Good morning, I have a couple of questions. On NII there was a comment on MBNA alignment. How much does that benefit net interest income come in the quarter?

And my second question is on loan losses. A lot of your peers are taking IFRS 9 charges and it looks like your impairment increase today was about specific instance that happened in the quarter, there was no change in current economic assumptions or models that led to increase or decrease on IFRS 9 from a regulatory point of view. Could you help us understand why if your peers are making these changes but you don't seem to be? Thanks.

William Chalmers

Sure. Now dealing with the MBNA change for the moment. As mentioned it is a couple of basis points in the margin this quarter from product alignment. You will see also something similar during the course of Q4. That was an exercise that started in August and will finish in December, hence the fact that it comes across the two quarters. Essentially what it is, it is an alignment between products in Lloyds and MBNA portfolio in the cards area obviously. When we bring the two into line it just means amending the

balance transfer period which as you know is effectively EIR accounted. And that in turn means accruing some income into the current period and hence a couple of basis points as I described.

That probably is as much as makes sense to say really on the point and hopefully it gives colour and context that you need in terms of the quantum and also the mechanics behind it.

Further question

Just so I understand, is that about £40 million benefit then over the second half from just alignment?

William Chalmers

Yeah, it is roughly that. We are trying to take a conservative approach to the amount that we put in Q3 versus the amount that we put in Q4, but you are not a million miles off.

The loan losses point, IFRS 9 is obviously an important point. You see the charge here which is £950 million for the portfolio as a whole. The IFRS 9 approach that we take, we consider it to be a very pure approach, very consistent with the IFRS 9 guidance that has been given and effectively what it does is it takes a base case and then it shocks that base case. So that you then get a distribution if you like and different macro economics and indeed asset quality implications. Some of those from the nature of the distribution are more benign than the base case. Some of those are significantly more severe than the base case. And you have seen that we then put it into base case, upside, mild downside and severe downside.

We have, off the back of that distribution, a probability weight alignment which feeds into our ECL. So when we talk about the overall IFRS 9 charge that is put into our accounts, it already takes account of that spread of distributions including some fairly severe downsides of macro economic and indeed loan book implications. To give you one example of that, in our severe downside, house prices go down by the order of 35 per cent over the course of the five year period. Commercial prices I think are down a nudge above that between 35-40 per cent over that same period. And those in turn are fed in on a probability weighted basis to our charge.

So from our perspective we have a range of macro economic assumptions built into our ECL and when others talk about putting overlays or others into their charge, from our perspective it is already built in.

Further question

Thanks. Sorry, could I have one quick follow-up on that. As you mentioned it, it kind of sparked a question. I remember you have always had a £100 million buffer in your loan loss charge for residual value discounts on the car lending book. As car prices fallen so much, has the buffer been utilised or have you kind off topped up the charge, or £100 million buffer has remained?

William Chalmers

I am probably not going to be able to go beyond disclosure we have provided in the Interim Management Statement, safe to say we typically take a very conservative view on cars and we build in buffers, some would say buffers upon buffers in terms of the way in which we assess these charges. The first three quarters experience within second-hand car prices, were comfortably within any buffers or expectations that we had. We were obviously pleased to see a bit of a turn in the course of the first month of Q4, but as I said earlier on, let's call that when it is a trend rather than when it is a just a few weeks or months. Safe to say that the buffers that we have are still, in a significant part, there.

Fahed Kunwar

Perfect, thank you very much.

Question 5 – Andrew Coombs, Citi

Good morning, if I could have a couple of follow-ups. Firstly on the EIR accounting, both with respect to MBNA alignment but also on the mortgage book. On MBNA, I think the reason we have seen the EIR benefit is because you are actually changing the balance transfer period on some of the cards. You said it is going to repeat in Q4 where there will be another uplift. Is that something that then drops away or because there is actually a change in the duration, is that something that is now the status quo going forward?

And then with respect to the mortgage book, we saw with Barclays in the second quarter they changed some of their assumptions to do with the length of period at which customers stay on the SVR and took a one-off charge to any EIR assumptions there. RBS have flagged something similar for 4Q and with that in mind could you just comment on your

SVR experience, what you are seeing in terms of attrition rates trending, to what was previously said, were accelerating? And also that means we would also expect in the EIR assumption changes from you as well? Thank you.

William Chalmers

Sure. Again two questions there. Maybe to take the first one first. The MBNA product alignment is a rate alignment which in turn produces essentially a one-off in this case, it is going to be spread across two quarters, change. Then to use your language, does effectively drop away. So I wouldn't expect that to be repeating itself into 2020.

The second of the two questions, the Barclays point. Obviously I can't really comment on Barclays accounting or quite how it works in their SVR. I think to comment on our own book and what we see, we are pretty conservative, in fact very conservative on the EIR assumptions, so we have a relatively small EIR asset which is then reviewed every year. Any true ups that we see from that review typically are immaterial and I am obviously referring here to the mortgage accounting specifically, given your question. So we are seeing a little bit of shortening in behavioural lives. It is not dramatic to be honest, but it is a little bit of shortening. But that isn't causing us any significant EIR implications. So again I don't want to draw comparisons against others particularly, but that just speaks for our own situation.

Your then question that was attendant to that around the SVR and the attrition and so forth within that book, it is very much as we said at the Half Year which I think was around the 15 per cent mark. We are not seeing any particular change from that as we speak today, staying around that level.

Andrew Coombs

Thank you.

Question 7 – Chris Manners, Barclays Capital

Good morning William. So three questions if I may. The first one was on PPI. When I looked at the statement you put out in September it looked like you had received around 3.5 million PIRs in the two month period which seemed to be quite a lot. Obviously you gave quite a wide guidance range on how much the charge would be and you have come in right at the top end of that range at the moment. Would it be possible to just give us a bit more colour on what surprised you and why you have come up right at the top end of that range?

And the second question was on costs. As I look at consensus for 2021, it is sort of 47 per cent cost:income ratio and this previously is guided to a sort of low 40s cost:income ratio exit rate for 2020 flagged a few more headwinds on revenue. How should we think about that cost:income ratio target?

And then the last question was just on mortgage competition. I guess you have grown mortgage balances in the quarter. Presumably that is because you have actually seen what you think is a good risk adjusted return and a decent RoE because you have had widening of the spreads as swap rates fell. Maybe you could just explore this a little bit, how you see mortgage competition and whether you can actually continue to grow at that pace? Or given that the now spreads have narrowed and swap rates have come back up again, whether you might hold off again? Thank you.

William Chalmers

Sure, thanks Chris. First of all PPI. The £1.8 billion provision that we have taken today as was described in September, as you know essentially had three components to it. First component is around PIRs and direct customer complaints. The second component is around the Official Receiver. And then the third component is around operational charges including financial ombudsman and other I guess. When we look at that, what has been interesting to us in the period since we made the announcement in September, we have now got a very complete picture I should say, a much more complete picture than we were in September. It is very complete on volumes where we have now been through the stock available to us and it is also now much better informed on quality. That in turn allows us to get a good grip on both of those numbers, I have indicated about 10 per cent in terms of the quality. Within that period there has been a bit of variation. Some periods have been higher, some lower, but overall averaging at about 10 per cent. That piece if you like takes up a large chunk of the £1.8 billion overall provision. And we are deliberately making sure that we feel comfortable on a best estimate basis obviously as to both quantity and quality there.

The Official Receiver is obviously an area that all banks have looked at and we feel that it is appropriate just to take a prudent view on what might come out of that Official Receiver situation even though you know there is quite a wide range of outcomes I suppose in respect to that one.

And finally, operational costs and financial ombudsman, to a degree at least those follow the first line, i.e. the volumes and otherwise of PIRs and direct complaints that you might get.

So why have we come out at the top end? I think we have come out at the top end because the further work we have done has confirmed that coming out at the top end is the appropriate place to come out at. And it allows us to form very much a best estimate of what the right provision might be. Now, having said that, as with all provisions there is a degree of uncertainty. I think the last thing that George said to me when he walked out of the office is never say never on this topic. So you know I will take that advice. But that is kind of where we are on the PPI.

Costs. You are going to the area of guidance now Chris which I am going to be a little bit cautious on because that is really for me for the year end in the first part of 2020. It is as you rightly said, a tough revenue environment today and you know it will take a bit of time before it gets better no doubt. The cost:income ratio is a function both of the income line obviously and also the cost line. The one point that everybody should draw some comfort from is as I mentioned before the relentless focus on costs really that we have around here. I mentioned a couple of examples in the words that I gave earlier on. There are others, for example 50 per cent of the non FTE cost base is up for renewal every 3 years because of the nature of contracts. That allows us to take a good look at that chunk of the cost base every year, or at least a good chunk thereof. So I think the costs is a lever that we feel we are good at and to a degree at least is under our control. External environment less so. And the precise implications of that from a guidance point of view I will fill in at the beginning of 2020 with the Year end results.

And then finally, the third question, mortgage competition. You are right, it ebbs and flows in this area. We saw a very competitive market going into the early part of the summer. For one reason or another and some are positive it was because of the summer holidays, that then eased off during the course of the summer and it worked its way into pipelines and gave us a good organic share which I think was getting up towards kind of 19 per cent or so share of the market at that point. And that was as you say, based off a view that we could earn an attractive risk adjusted return because of margins coming back in a more favourable place. It is a core product for us so that was welcome to see. At the same time we have seen a little bit of ebbing in the margins since then. Going into the autumn it has come away a little bit. It is not yet back to the levels that it was earlier on this summer, but it is not as attractive as it was when we were participating in full. And so we do step back a little bit in those conditions and the growth as a result, that you will see at the end of the year would reflect that. You know we still expect the open book to be in the right place, we obviously have the benefit of Tesco which allows us to moderate our organic participation in the market or not as we see fit. And that hopefully works to our advantage. So we will participate on a flexible basis, again that is assisted by the Tesco acquisition in that respect and we will be selective about when we enter the market and when we don't based upon what we think the returns will be.

Further question

Understood. And could I just ask a follow-up on that? I think you were talking earlier in the call about your RWA inflation may be coming in at the lower end of where you had expected it. Would that actually mean that you got less RWA inflation on your mortgages so the spread you would need to meet hurdle might be a little bit lower making it a little bit more competitive or is that RWA inflation benefit coming from somewhere else in the book?

William Chalmers

The RWA changes, I will just briefly comment on why. First of all this is just our current base case. So there is risk around the situation. We will give more information at the year end. Our current base case as I said earlier on is moving towards the lower end of where we were at the summer. When we look at that there is a couple of characteristics or building blocks within the RWA inflation. One is in Retail and the other is in Commercial. Part of the reasons why our RWA expectations are evolving in the way I have just described are some of it is being taken in 2019 as our models adjust. A little bit of it may be taken in 2021, i.e. beyond the 2020 time period. And our model refinement in turn may take us to a view the RWA inflation per se is perhaps a little bit less bad for want of a better word than it might have been. So it is each of those three reasons.

Again we will update in a bit more detail towards the year end. I think on your question about pricing and the implications for mortgage rates. I must say, when we look at it, it is not obvious to us that the market was rationally pricing based upon where RWAs were previously. And so when you say, will that encourage us to get into the market much more? Possibly but it very much depends on markets. I think the key issue as was said is that the pricing of mortgages when there are very low margins, in our view, did not take account of the existing RWA framework as it was at that time. So as it bounces back the implications will be dependent on that.

Chris Manners

Thank you.

Question 8 – Martin Leitgeb, Goldman Sachs

Good morning. Could I just have a follow-up on the mortgage question and firstly I would just like to ask you whether you could disclose your SVR book size as of the third quarter. And over the medium term I was just wondering whether you could give us a steer where you think the yield on the mortgage book will go? I think last disclosed as of half year was the mortgage book had a yield of around 180 basis points and I think during the call it was mentioned that new business is coming in at 100, likely over 100. So I just wondered if you could give us a steer over the medium term, over the next 2–3 years where you would expect the kind of cross yield to go?

And then the second question is more broader and it might be a bit early given that probably the guidance you give around full year. But I was just wondering in terms of what you think the return capacity of the bank is over the medium term just given current conditions and I appreciate a lot has changed over the last couple of quarters, the last couple of years. Obviously the rates outlook is slower globally, the rates in the UK have changed, mortgage pricing has remained to be meaningfully below existing book yield and equally on fee income and impairment levels. Events seem to have slightly changed over the recent past so I was just wondering compared to your prior guidance 14–15 per cent, I think Consensus at the moment is a 13 per cent. If things were to stay at current levels could you give us a steer on where returns should be heading? Thank you.

William Chalmers

I think there are basically three questions in the points there. The SVR component of the book as of 3Q, I am not going to put a number on that, but you know the number as of the disclosure last time around, you know the attrition has been roughly what I said earlier on in the call. You can I am sure get to the number off the back of those two, and again you probably wouldn't be a million miles off if you applied those metrics.

The yield for the business. I think what you said just around the 100 basis points is probably not far off. I know it has been commented on by a number of banks during this reporting season. I don't think their yields will be necessarily hugely different to ours. As I said we may be a bit more selective than some about when we go into the market and when we don't and that might drive a bit of a difference in yields for that reason.

RoE guidance, again I am going to stay away from precise guidance for 2020 and beyond that. That will be done at the Full Year as I said earlier on. I think I will just draw your attention back to some of the comments I made earlier on around capital production in the business and the fact it is a strongly capital generated business, we don't expect that to change.

Martin Leitgeb

Thank you.

Question 9 - Guy Stebbings, Exane BNP

Morning, thanks for taking the questions. I have one on the structural hedge and then one on the capital target. On the structural hedge I think you referenced the £13 billion of excess notional hedgeable balance and I think there is around £10 billion maturing in the fourth quarter. So perhaps £20-25 billion of total hedge capacity in Q4 to deploy. So can I check firstly are those assumptions valid and if so what is your current thinking around the hedge given where prevailing swap rates are as obviously it is quite a big delta as we look ahead?

And then on capital, you talked about the benefit of Pillar 2A but maintaining the target for now in your opening remarks. Perhaps I am reading too much into that comment, but were you hinting that we could see a future favourable revision there, perhaps if the stress test result in December goes well for you. I appreciate it is a matter for the Board, but it would help if you could give some colour around that, it would be very useful. Thank you.

William Chalmers

Okay. Thanks Guy. On the first issue around the structural hedge, I think the £13 billion excess you obviously heard in the comments, and that gives us a degree of optionality to invest it when rates come back. At the moment when we look at the shape of the curve there really isn't much point in investing. You have the same yield back off a 3 month investment as you do off of a 5 year investment and so we sit tight while that happens.

Some of the worry you have around the structural hedge over the course of the next few months is probably a bit less of a worry on the basis that we have taken some risk off the table as we look towards 2020 and that was done when we saw spreads coming back earlier on in the quarter. So we took some advantage of those widening spreads to take off some of the back end of 2019 risks that you were referring to.

And then as we look forward, having said that, and I think this is consistent with what was said at the Half Year, we see some attrition in the hedge over the course of the next year. I think it was in total at around £30-40 billion over the course of 15 months which gives you a sense of the shape of the hedge over the course of the next year. So that is kind of where in terms of checking your numbers those are the points I would make.

On the second question, the capital point on Pillar 2A in particular, that really is a matter for the Board. So all I want to do is to point out that Pillar 2A revision has obviously come in, it is very welcome, it is in our favour and it gives us a further 10 basis point headroom against regulatory requirements. But how that is responded to is really a matter for the Board which I am sure they will consider in due course.

Guy Stebbings

Okay, thank you.

Question 10 – Jonathan Pierce, Numis

Hello there, I have just got one question really on the insurance company. I don't know whether you can give us an update on the Solvency II ratio of Scottish Widows at Q3? It obviously came down in Q2 partly because of the foreseeable dividend but also the movement in market rates has that declined continued to any extent in Q3 and similarly can you give us any sense as to what you're thinking with regard to potential dividend upstreams at the Full Year stage? Thanks very much.

William Chalmers

Sure. Thanks Jonathan. The Solvency position of the insurance company, we don't obviously disclose on a quarterly basis, I don't want to change that for the time being at least. The Solvency II ratio obviously over the period of time gets driven by rates just as it does with any insurance company. For the time being at least the Solvency position looks very comfortable and as we project that forward into the last part of this year and early part of next, likewise we feel very comfortable on it. There is no doubt that if the long-term rates picture remains depressed that does eat into Solvency over time and we would expect to see that just like others would I am sure.

It is, the Solvency position I will just make one more comment, it is not a rates comment, actually more of an equity comment. We have taken quite an active stance in terms of hedging the insurance position particularly in relation to equities. That gives us a bit more comfort over the Solvency position for the company as a whole and a bit more conviction in what it will be towards the end of this year, so that is helpful.

I think, was there another part to your question Jonathan?

Further question

Yeah I was just wondering what we should maybe expect in terms of upstream at the full year. There was £350 million in February of this year. Will it be that order of magnitude again?

William Chalmers

Just as a governance matter, a procedural matter, the dividend from the insurance company is a matter for the Insurance Board and so I don't want to pre-empt that at all. It is for them at the right time. I think the comments I made earlier on around the Solvency position of the company hopefully allow us to be confident that the dividend expectations that we have at a Group level should be met because that Solvency position is as I described. But to be clear that is a matter for the Insurance Board and a decision to be taken at the right time by them.

Jonathan Pierce

Okay great, thanks very much.

Question 11 – Chris Cant, Autonomous

Good morning, thank you for taking my questions. One quick follow-up or clarification on NIM please and then a couple on other income. On NIM I think your 288 basis points guidance for the full year implies circa 285-286 basis points for the fourth quarter. If I understood your comments on MBNA correctly, there is about 2 basis points of benefit then in the fourth quarter number which would imply an underlying exit run rate going into 1Q of next year of 283-284 basis points. Is that the correct interpretation of what you have told us today please?

And then on other income, you indicated Retail other income should be flattish into next year. A couple of your peers, including Santander UK yesterday have flagged regulatory driven overdraft fee changes as quite a big impact potentially

into next year. What is the impact of that for Lloyds please? If you could quantify that for us going into next year given how close we are to the end of 2019? And what offset do you expect to that in order to keep Retail flattish into next year? Thank you.

William Chalmers

Okay. Thanks Chris. First to your questions on NIM, I am not going to be overly precise on the point, but your interpretation of the guidance for the full year, the implication of that for Q4, within that the component of a product alignment that I mentioned earlier on. All of those building blocks are the right building blocks to be using and therefore I will leave you to draw your precise conclusions on that as you will. But all of those building blocks that you are taking and the inferences you are drawing are basically right.

The second of your two questions, Retail OOI. Again I don't want to comment too much on Santander and what they may be seeing. The one point I would make as you will be aware there has been a change in the product here on overdraft facility and that actually pre-dates me. But there was a redrawing of the overdraft facility which essentially did away with an awful lot of the fees that were previously imposed on customers. And although that will need a bit of refinement in the context of the FCA guidance that has come out since then, and that will be done, most of the headwinds from a fee perspective were taken out with that initial product redesign when it was taken. So as a result the headwinds that others might be seeing, at least in a significant part have come out of the business here already.

The business meanwhile on the Retail line, on the other income line will be driven hopefully by a range of benign factors no doubt stemming in part from some of the current account guidance that I gave during the comments earlier on where we have seen volumes increasing. And if the regulators do have anything else in store then we will see that in due course. But the specific point you made on overdraft fees we feel has been very substantially dealt with.

Chris Cant

Thank you.

Question 12 – Benjamin Toms, RBC

Morning. Thank you for taking my questions. First just to follow up on Chris' point around NIM. I know you are being cautious on giving guidance for 2020 but I think you have already given guidance that you expect 2020 NIM to continue to be resilient around 290bps. What does this assume in terms of rate cuts or rises in the UK over that period?

And on acquisitions, you purchased the portfolio from Tesco, are there other potential bolt-ons that you may be considering? Thank you.

William Chalmers

Okay thanks. I should be clear then on 2020 guidance, for 2020 it is going to be given at the year end results, i.e. the 2019 year end results when we present them in 2020. Any guidance for 2020 is going to be given then. The arithmetic on NIM I hope I have been clear in that earlier conversation or question from Chris hopefully gave insight into the building blocks that I think makes sense from a NIM perspective. I will leave you to draw your own conclusions from that. That is all I can say on that point.

Second point, Tesco and other similar acquisitions. We will look at acquisitions as they come on the market and if there are acquisition opportunities that make sense from a shareholder value point of view then we will take them. And the way that we look at shareholder value here is very much a combination of what value can we get from a conventional M&A point of view, to what extent does it allow us to increase flexibility as to our organic strategy? Is there a franchise perspective whereby we gain customers that we will welcome into the Group? All of those factors get taken into account. Our strategy to be clear is an organic-led strategy where a particular discreet M&A opportunity comes up and we think it makes sense, we will look at it.

Benjamin Toms

Okay, thanks.

Question 13 – Fahad Changazi, Mediobanca

Hello, just one quick follow up on the insurance operation actually. Could you perhaps give us how much and tell us how many bulk annuities have you written at the nine month stage and/or are you still confident of hitting your £2 billion target for the full year?

And just to follow up on the asset side of bulks, are you saying it is getting more competitive for sourcing high yielding assets to fund this bulk business? Thanks.

William Chalmers

Sorry would you mind just repeating the first question, I didn't hear it properly?

Repeat question

Sure. Are you still on track and feel confident of hitting your £2 billion bulk annuity premium guidance you had in the past?

William Chalmers

Okay thanks. I think on bulks, we didn't issue guidance as such, it is too precise really for guidance to be given on. But to give you some idea on our 2019 views. We see an ebb and flow to be honest. There is quite a lot of supply in the market and that comes with small bulk opportunities and it comes with large ones. Because it is by nature lumpy you will see it kind of go up and down on a quarterly basis. We have signed a few, or we are signing a few, I shouldn't pre-judge it too much, but we are signing a few in Q4. You will see therefore perhaps a bit more in Q4 than you saw in Q3. As to the total quantum of that, I don't want to put a number on it and, as I say, I don't want to guide too specifically on such precise items. But we are seeing a couple more in Q4 than we did in Q3.

On the liquid assets point, it is a good point. I mean the supply of bulks coming to market for a whole variety of reasons you are aware of, is a strong, steady flow and I think that is going to continue because companies just don't want these things on their balance sheets. At the same time you can only make sense of acquiring a bulk risk if you have got the assets to actually make the margin off of and those need to be liquid and they need to be long-term in order to match the responsibility or liability you are taking on. We are very careful to ensure that any liquid assets that we bring onto the business, it doesn't matter where they are located, in the bank or in the insurance company or anywhere else for that matter, are consistent with our risk appetite. And so when we look at the market we do so through that lens. And you know to an extent at least therefore willingness to take on bulks will be constrained both by our willingness to adopt front end pricing and also constrained by a willingness to take on liquid assets to back them. And I talk about it as a constraint, but that is also the opportunity. But we will apply a strict sense of risk discipline around it.

Fahad Changazi

Okay fair enough, thank you.

Question 14 – Edward Firth, KBW

Morning everybody, I just have two questions. Firstly just in terms of your cost target. I think if I get my maths right that implies underlying costs in the fourth quarter of about £1,850 million something like that because I guess you have got the banking levy coming through in Q4. So that is quite below the run rate you have been running so far this year. And I guess 2 questions, one is firstly, is my maths right?

And secondly, it always surprises me the extent to which banks seem to be able to cut costs whenever revenue comes up short. And I am just wondering if you could just share with us some thoughts about where that is and I am thinking particularly are you having to constrain investment now in order to hit to the consensus numbers or have you just got spare costs that happen to be kicking around? I am just trying to get a sense as to how it is that you can bring that number down.

That was my first question. And then the second question was on capital. I guess we are all now talking and looking intensely at Basel IV and I think consensus seems to be suggesting you are losing about 200 basis points off Core Tier 1, something like that. Can you give some indication is that the sort of number you are thinking about and what are the variables? When can you give us a more consistent or more confident number, I guess, and what might that do in terms of implications for your target?

William Chalmers

Okay thanks for that. On the cost target. The new cost guidance that we are bringing out for 2019 is the £7.9 billion for the year as a whole. I don't want to go too specifically into what is implied for every given line item within that. The bank levy you are right comes into Q4 and that is fair. We will give more detail on exactly how that breaks out at the end of the year. But the guidance for the cost base as a whole is in the context that I have given.

Further question

But sorry just to be clear though, are these projects that you can delay into next year, is that the way you do this? Or is it that people have spent less money?

William Chalmers

No it is simply a function of some of the cost management techniques that I mentioned earlier on. E-auctions are an example. Contractor staff is another good example. Contractor staff are all over the banking sector, they are also very expensive and when you bring some of them into the bank you significantly cut their costs and the IR35 initiative for next year perhaps helps a little bit in that respect as we seek to bring more contract staff in as permanents.

The investment point is an important point. We actually see the investment point as an opportunity from a cost perspective. We have very much maintained and protected our investment line over the course of the GSR 3 period and look to do so next year. I mentioned earlier on our £1.7 billion investment to date. The reason I say this is an opportunity is because there are a number of investments that we look at both this year and next and then beyond that go to reducing the cost line. Decommissioning is one example. There are a number of others. But the point of investments in part at least is to allow us to run the business at a lower cost base going forward and that is an important point. So no we are not cutting into investments and we do in fact see them as an opportunity as we manage the cost base going forward.

The Basel IV point you mentioned I am going to leave that for another day. We are not giving Basel IV guidance that is consistent with what we have done for some time. It is because it is a little way off as you know. It is also because there is still a range of uncertainties about how Basel IV will be applied. And so we don't really want to get into a kind of guessing game as to what will happen in Basel IV.

Further question

Any idea when that will be made clear? Obviously a number of European banks now are giving guidance and I imagine a lot of them have got quite significantly more complex businesses than yours. It is not you alone, it is all the UK banks seem to be sort of like wishing it away. I am just trying to get a sense of when we might have some clarity on that?

William Chalmers

I think you should go and ask the PRA.

Edward Firth

Okay.

Question 15 – Robin Down, HSBC

Good morning William, long time no speak. Hope you are well. Just a couple of quick ones. One easy one. If you could give us the average deposit rates in the quarter, that would be quite helpful?

And the second one, I hate to come back to fee income side, but you know it would be good if we look at this year and pencil something in for Q4 and allow for sort of £400 million of exceptional one-off type things in the first half. We are going to get to around kind of £5.3 billion or so. It does make the consensus for next year at £5.9 billion look a little bit tricky. And I take on board what you are saying about potentially seeing a better markets performance next year versus this year. I wonder if you could just tell us, I guess you have got about a billion of other income in commercial banking year to date, if you could give us some sort of ball park as to how much of that is markets so that we could try and scale what the upside might be for that?

William Chalmers

Okay thanks Robin. Average deposit rates, I won't be too specific in terms of pricing. It is safe to say there are some elements of the fixed book that are higher if you like than other aspects of the deposits and that to an extent is helpful. I think that is consistent with what has been said before.

The fee income point, it is really, as said, a function of 4 main areas. For Commercial, what may come back in markets. We have had frankly very weak market performances as I think most of the banks have. Obviously it affects the investment banks a bit more than us. But it also affects us because we have a decent, sizeable markets business. That, as said earlier on, we expect to come back, it is simply a question of when the investment side returns. The Insurance business is a second point and as I said that has decent, strong I would say, growth drivers behind it, not just in Insurance, but also in the Wealth area. That is supplemented by some of the experience changes and longevity changes which you saw in the first half of this year, I think you saw in the first half of the year before that. And let's see what that holds for the first half of next year, but the pattern is there, so that is another piece. Overall Retail I described as steady which I think is fair, we are also seeing a growing Retail business on the liability side as I mentioned earlier on. And in Other, Q3 has basically zero or low single digit gilt gains within it. It is also off the back as I said before, of a relatively tough comparative from an LDC perspective. So there are reasons why one might expect that to be a little different going forward.

So without giving guidance which again is a year end matter, early 2020 matter, you must do what you want to do. But there are reasons as to why we think taking Q3 and annualising it, you should be cautious before you do that.

Further question

I agree, I fully understand that, I am just trying to scale the opportunity from markets returning to perhaps a more normal level, whether that is a kind of £100 million upside, a £200 million upside. And unfortunately the first 9 months of this year I don't think we have any disclosure on how much of the sort of commercial bank fee income is markets related.

William Chalmers

I have probably gone as far as I can go on that point really. Safe to say there is markets opportunity which adds to the opportunity on this space. There is also a range of opportunities that stem from that and I mentioned hedging earlier in as an example of that type of thing. I won't go any further to put number on it, but it hopefully gives you a sense of the issue we are looking at.

Robin Down

Great thanks William

William Chalmers

Okay. I think we are going to wrap up. Thanks again to everybody for taking the time to attend the call. Hopefully it was useful and look forward to engaging further with you going forward. Thanks very much indeed guys.

End

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and/or results of the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. 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 to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.