MORGAN STANLEY EUROPEAN FINANCIALS CONFERENCE WITH CHARLIE NUNN – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

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Charlie Nunn, Group Chief Executive, Lloyds Banking Group
Alvaro Serrano, Managing Director, Morgan Stanley, (Moderator)

Alvaro Serrano
Thank you, everyone, and welcome to the session with Lloyds. I'm delighted to have Charlie Nunn, CEO of Lloyds Banking Group. Once again, thanks for coming, Charlie.

As always, before we start, let's kick off with a polling questions. What do you think is more likely to surprise the market positively this year for Lloyds

1. Higher income - deposit beta, hedge, other operating income.
2. Tighter cost management.
3. No further or lower provisions needed for motor finance.
4. Stronger capital distribution.
5. Faster progress towards 2026 strategic plans.

Alvaro Serrano
Great. No further or lower provisions needed for motor finance, 42%. Well, that's sort of a constructive mood at least, which I'm sure we'll touch on. But maybe, Charlie, thanks again for joining us one more year. You reported Q4 results not that long ago, and 2024 was also the end of the first phase of your strategic plan. Maybe we can start there. Can you take us through your key highlights as we stand here today and how you believe you're transforming the bank?

Charlie Nunn
Thanks, Alvaro, and it's great to be back again. Despite not having a video screen, as we were just saying, cost cutting at Morgan Stanley is always a worry with the uncertainty we've got.

So we just had our full year results. Three things, really, we talked about. The first was we closed the first chapter, the first three years of our five-year strategic plan as we laid out. And I'll talk about that a bit more because that's what you asked, but we broadly either met or exceeded our targets in that, so we we're feeling good about the momentum in that context. Second thing was we reported robust financial results for 2024. We met all of our targets, excluding motor finance. I'm sure we'll talk about that later, Alvaro.

And then the third thing, which I think is really important, is given the momentum we've built in the first phase of the strategy, we have reconfirmed and then slightly strengthened our consensus and our guidance for 2026, feeling really good about the top line revenue growth around capital generation and the sustainability of that, and then achieving our targets of greater than 200 basis points of capital generation by 2026 and greater than 15% ROTE.

So just the first three years of the strategy, look, we committed to three things in three buckets, and I'll talk about it quickly. The first was getting back to growth after a decade post-financial crisis of not growing. We were, in fact, in many areas giving up market share. The good news was we exceeded the revenue targets that we set of incremental strategic initiative growth. We have delivered strong other operating income growth, about 9% to 10% CAGR per year, which is linked to some of the core businesses which are really differentiated at Lloyds Banking Group. And we've seen market share growth in all of the key businesses that we wanted to. So the growth thing has gone well.

The second part was really around operating leverage, if you like, on more capital and costs, so focus. We exceeded our gross cost savings target of GBP 1.2 billion over the three years. We delivered significant efficiency improvements, things like a 30% reduction in channel FTE costs per customer. So significant efficiency improvements. And we did about £18 billion worth of RWA optimisation to give the operating leverage on capital, which was a really important part, and derisked parts of the business. For those that have been here on the journey with me, we had a £7 billion pension deficit when I joined, and we've halved the size of the legacy mortgage book. So very significant derisking.

Then probably the most important part is what we call change, so grow-focus-change. And the change is really about building new capabilities, bringing in new technologies, and then driving underlying business and market share growth. We did that across every single part of the bank, and that's the stuff that gets me excited.

But probably the one that, the headline is the digital bank has really grown. We've grown to 7 billion log-ons, 50% growth year-on-year -- sorry, in over the three years. We've got the biggest digital service by far in the UK, and that's delivering us better cross-sell, better efficiency, and it gives us some real momentum as we look at the next years. I'll stop the sales pitch, and then you can ask me the difficult questions.

Alvaro Serrano
The UK NII continues to nudge higher each quarter, obviously driven by the structural hedge. You've given very detailed guidance on how much to expect in 2025/2026. But beyond -- I don't want to make it just about the hedge, but beyond the hedge, how are you seeing general activity in the UK? Because we're seeing sort of conflicting sort of data points at the beginning of the year. We're worried about stagflation. Do you think concerns are overdone there? And what do you think can get in the way?

Charlie Nunn
So I will talk about the economy. Just briefly on the structural hedge. And I know it's been a frustration to many people in the room here. As you say Alvaro, William, our CFO, gave specific guidance on the structural hedge for 2025 and 2026. We said we'll deliver £1.2 billion of additional revenue this year and £1.5 billion additional in 2026.

As we know, we have talked about for a while, we have a better stability around our deposit base than other high street banks in the UK, and we're winning market share in both BCA, business current accounts, and PCAs, personal current accounts. And that enables us to take a really sustainable through-cycle view for our shareholders. That's going to be good. It gives us some top line revenue momentum. And on top of that, the strategic initiative growth is going to deliver more, which we laid out.

Now, why do we have confidence in the economy around that? The first thing to say is we've had almost a consistent now for 18 months view of the economic environment and the predictions around GDP growth, resilience, interest rates, and our team's almost perfectly predicted what's happened. The reason is, when you look at households and businesses, the government finances are more stretched than other parts of the economy, is there's real resilience in households and businesses, and actually, that resilience has improved year-on-year.

So our view has always been for a while now a, what I would call a resilient but relatively low growth economy. And resilient means we're seeing deposits in households and savings grow 6% year-on-year as we did. That's obviously significantly above inflation. So we've seen real deposit and savings growth. We have seen cash flows in most business segments stabilise or grow. There's a couple of stressed segments in the business SME sector and large corporate sector, but they're not the drivers of growth. So there's real financial capacity and resilience in the economy.

The things we have seen that have been a drag in the last few months is confidence, both businesses and for consumers has been low. And that took a hit through the back end of last year with some of the announcements that came on the economy. Then the second thing is obviously rates are still relatively high for businesses looking to invest, and so we're seeing slower investment.

But what does that mean for Lloyds Banking Group? We're not predicting a significant increase in unemployment. We're predicting rates to continue to come down slowly. We're predicting two more rate cuts this year. We're predicting underlying growth in the economy at a slow rate, but also deposits and balances around things like mortgages continuing to grow, which are important for us.

And then when you look at our business model, we have deliberately exposed ourselves to the parts of the economy that we think will grow significantly faster in the economy. So we're number one in infrastructure and project finance, and the government policies on that are significant. We're number one on housing, and there's a strong set of commitments around housing. We're number one on mortgages, and actually we're seeing mortgages continue to grow. We're number two on pensions, and we're a big pensions consolidator. And that's a real source of growth for us. We're the biggest digital bank, so we're seeing great opportunities to focus on higher value customers and grow our share of them significantly.

So we actually see a resilient, slower growth economy as a very good place for us to do business. If the economy grows faster, that's great.

Alvaro Serrano
On growth, I want to touch on mortgage growth. You grew 2% the balances last year. Do we need to see rates come down materially more from here to see that growth accelerate? I think in our case, we had more growth expectations for the whole market last year. And also around pricing, there has been some reduction early this year. Maybe you can touch on what you're seeing, and is there any diverging trends from the 75 basis points completion margin you gave for Q4 2024?

Charlie Nunn
So first thing I think is just to note, as you said, the growth last year. If you take out the securitisations, we grew the portfolio at £8 billion, which is a pretty significant growth. That's excluding, obviously, we continue to derisk and reduce the legacy businesses, which I still see as a core thing I need to achieve for all of us, for all of the shareholders and for us through this phase.

So actually, underlying growth was very strong. What did that mean? That meant we were trading above 20% market share for the whole of last year at about 75 basis points of margin. That's good returns for shareholders. Most importantly, Lloyds Banking Group hasn't done that for over a decade. One of the things I committed to all of you and to all of us in the strategy was that we would get back to being able to compete in the parts of the mortgage market where there was value and prove that we could stabilise and then be working and growing with our customers around that business. So it's a really important part of what we saw last year.

As you say, look, Q1 is going to be the business that we booked in Q4. But what we've seen in the market is actually the activity in the UK mortgage market has stayed elevated. And we don't think it's just people chasing the stamp duty that's coming, because that's still elevated in the last few weeks, and customers won't be completing those mortgages before the stamp duty. So let's see how long that continues. But we're seeing an elevated mortgage market.

Your point about as interest rates come down, do you see demand increase, the answer is yes. We do think with a lowering rates environment, if obviously the swap curves -- most people are locking in two and five-year mortgages, so they're pricing off the two and five-year mortgage, they're not going for variable - if we see that continue to improve, we have seen real sensitivity. The market's strengthened when rates have come down. So we would expect the mortgage market from a volume perspective continue to be healthy. But that's when we have to wait and see. Let's see how it goes as we get through the first quarter.

And then in terms of margins, you're right that margins have been a bit tighter in the first few weeks of the year from a trading perspective. Of course, the counterbalance for us is our deposits picture has been stronger. It was already stronger, as I said, than many people thought last year. It was stronger than other high street banks. And again, it's been stronger than our expectations in the first few weeks. And that more than offsets any mortgage headwinds we see at the moment.

I think the really important point is how we're differentiating our mortgage franchise. We compete in very specific sub-segments around buy-to-let, around first-time buyers, around the remortgage proposition, targeting our mass affluent customers. I'll just give you one example. We took our share of mortgages, the mass affluent customers, people with £75,000 or more, from 9% share of the market to 22% share of the market in the last three years. And it's a very profitable part of the segment.

So we see opportunities to grow value over and above us continuing to reshape and derisk our £310 billion worth of mortgage assets. So we think the mortgage market will continue to be a positive for the group. And when you look at it in the context of the overall evolution of the retail customer base and retail deposits, it provides us that foundation for growth.

Alvaro Serrano
You touched on deposits going better. We've now had three rate cuts. How have you managed to cut your remuneration on deposits so far? Is that going to plan, and is that without affecting volume growth in deposits?

Charlie Nunn
Yes, is the simple answer. It's going to plan. And yes, it not only hasn't negatively affected deposit growth, we're seeing the market stronger than we thought. So our deposit base is kind of more stable than we thought in that context.

Just a bit of context. Obviously, Lloyds has captured market share of deposits in the last few years. But also, we passed on about 50% on the way up, actually a bit lower than the rest of the market. And you should expect on the way down, and William has guided towards this, my CFO, that it will be a headwind as rates come down. There's always a lag between when we can operationally announce cuts versus when the cuts hit us. And you should expect a similar 50%-ish pass on the way down. So it will be a slight drag and a slight headwind. That's in all of the numbers and forecasts we have looked at and it's always what we expected.

I think one of the things we did at the year-end that will help around this on mortgages and deposits and liabilities is we have moved our guidance, having been asked I think a lot by this community, just towards NII guidance. And so for 2025, we have guided towards NII increasing £0.7 billion to £13.5 billion. That kind of deals with the headwinds and tailwinds issue. We started growing NII in Q3 last year, and we see that as a positive trajectory as we go forward, despite the lowering rates.

Alvaro Serrano
One driver that's not sufficiently appreciated, at least in my view, is other income. You've grown 11% CAGR the last three years. Can you sustain that level of growth?

Charlie Nunn
Yes. This is something that we were really focused on at the start of our strategy back in 2022 -- I suppose we made the decisions in 2021 -- that we knew we had some really differentiated businesses, and that when we think through cycle and long-term capital and shareholder distributions, you needed to diversify the business more to have a stronger other operating income line. So we took a whole bunch of strategic choices, and I'll give you the examples, and the answer is yes, we think we can sustain it, that level of growth, kind of 8% to 10% or more, because we took specific decisions around investing in businesses with an aspiration to grow market share. What we're seeing in the last few years is it's broad-based, and we continue to see it as broad-based.

So four buckets, and I'll do it very quickly. On the retail side, which is a harder place historically in the last 10 years to see OOI growth, we have the leading transport finance business and leasing business, and we've seen good growth around that business, and we continue to see it. Again, EVs, electric vehicles, are growing significantly faster than the economy. And we're the leader in terms of EV financing, so we see that as a growth opportunity in this economy. Good debate in other economies, I know, but I don't need to worry about that.

And we prioritise things like card spending, which in the first phase, we increased our card spending by 2 percentage points, 2 full percentage points, not percentage on percentages, from market share. So that's growing some of the growth in the retail business.

In our insurance business, we have grown our workplace pensions business. We're number one in home insurance. We've committed to getting from ninth to third in life insurance, and we're well on the way to achieving that. We've got to number one in annuities, and those are great businesses that are very capital light that are generating strong fee and capital returns for shareholders. So we're excited about that business, and that feels good in that context.

On the commercial side, we have seen a 30% growth in other operating income through our financial markets and capital markets businesses, and we've got a focus on trade and working capital in our SME businesses, deliberate choices. That's been a really fun business to start to regrow. We feel good about the positioning. A very simple debt, cash and risk management proposition. In the businesses in corporate institutional where we focus, we're either a leader or we're number one, project and infrastructure finance, housing, sterling rates, UK DCM. It gives us a real, really strong competitive advantage.

And then the fourth one we don't talk enough about, and we'll do more as we go forward is, we have these great businesses which are more on the risk taking side. So we have one of the leading equity businesses, Lloyds Development Capital. And we have started to build out a rental proposition across the UK. We now manage 5,000 homes. It's great returns for shareholders. It's great for our customers. And they are also strong sources of growth for OOI.

And my seat, when you're looking at something like OOI, what you want to see is a diversified portfolio of businesses driving that growth, because in any one quarter or any half, some of them may not succeed, but you need to see that diversification. What's brilliant for us is most of those businesses I just talked about, or many of those businesses, no other financial institution in the UK has. So we are able to bring them to our customers and drive that growth in a very unique way.

Alvaro Serrano
I'm just going to touch on that, that the other UK banks don't have that. You mentioned transport, you mentioned insurance, you've mentioned LDC. That different profile of other income, how much visibility does that give you when you look at that line? I'm asking because it does look like it's one of the missing pieces in consensus when I look at consensus versus your 2026 targets.

Charlie Nunn
So I think, obviously, this group will know about consensus better than I will, so I won't talk about the consensus specifically. But I think there's a few things going on, which we're highly aware of and we're going to continue to try and make sure is clear. The first thing is UK financial services broadly hasn't grown OOI for 15 years. So there's a bit of a debate I have with people around, is three years of growth enough to really prove that we can grow it sustainably. That's why I'm really focused with my team on things like, have we got the best proposition, customer experience and market share growth.

So you'll see, for example, in our Scottish Widows business, which is where we do the workplace pensions, the life protection, the home insurance, we have got now the leading Trustpilot score in the UK, 4.6. When I started, it was in the low 2s. So there were some things that hopefully should give you confidence that these are leading businesses that are differentiated, that can continue to grow.

The first thing is, I think, just confidence that is three years enough track record. Then the second thing is, which Alvaro, you and I have talked a lot about, look, there is some noise in the numbers. The two things that have been unhelpful, I think, for people looking from an investment or an analyst perspective has been other operating lease depreciation. There's been some volatility around second-hand car prices, which you need to look through to look at the underlying returns for that business, the transport business, which is very strong, by the way. Obviously, otherwise, I wouldn't be allocating capital towards it. And that's created some noise.

And then, of course, on the insurance side, we had an accounting standard change called IFRS 17 that reduced insurance revenues from an accounting perspective by £400 to £500 million I think is what we disclosed back in 2022. But of course, the really nice part about that is it created a, bizarrely, a liability called CSM, which we can then draw down every year predictably into the revenue line. So interestingly, it actually gives you more predictability around the insurance revenues, but that looked like an adjustment.

So look, I think it's those two things. Understandably, people want to see us deliver it quarter-on-quarter. And secondly, there's been some noise around the accounting on those issues. What I can say is, I'm really quite excited and very confident that the underlying businesses are growing and generating strong returns. So they'll continue to provide a good story to shareholders over the next few years.

Alvaro Serrano
Maybe we can go to motor finance now, which is obviously, the audience seems probably more constructive than maybe if we would have asked this question a few months ago. But it's definitely been a frustrating issue for the industry. You initially provisioned in 2023 for the FCA review. And then we had the appeals court ruling coming along, and you had to take a further provision in Q4. Can you lay out your thinking about the potential outcomes, how you think about them ahead of the Supreme Court ruling middle of the year? And help us maybe frame the risks around motor finance?

Charlie Nunn
Yes. So thank you. And it was really interesting to see the question. I interpreted it slightly more glass half empty, actually, normally than you, Alvaro, which is I think people were saying that would surprise them positively if it were clarified. Because I recognise it really is a kind of a risk that people are feeling uncomfortable with.

So look, a couple of things in that context. The first is, yes, we have now provisioned £1.15 billion. We don't do that lightly and I recognise that's a big decision for our shareholders. But we think that is the best estimate of the risk at this stage. £450 million was for the FCA review last year, and then we added another £700 million.

At the same time that we've done that provision, we did a couple of other things that hopefully will give you confidence. We paid down in 2024 to our 13.5% CET1 target, which is what we said we would do. And we recommitted to our 13% CET1 target in 2026. That's because when we look at this, and when our regulators and our board look at this, we think the £1.15 billion is a good estimate. There is risk, obviously, it could be less than that or slightly more than that, but it's very well bounded. And that gives us the confidence to maintain those commitments around our overall capital stack. So I think that's really important.

Second thing is, you said, kind of how to think about the risk going forward. I know, for those that have followed us, we have laid out a full set of scenarios that underpin that £1.15 billion. William laid out a framework at the year-end results that said there's three risk factors that will determine what happens here, really. One is the Supreme Court is reviewing the Court of Appeal decision. That decision -- sorry, the Supreme Court is meeting at the first week of April, and you should expect their results to come somewhere between three to six months afterwards, but maybe the summer is the earliest we would hear around that. There are some legal issues that will be defined in that context that will either put us to a lower risk scenario or to a slightly higher risk scenario.

The second question then is, how does the regulator step in? At this stage, no one's yet found any evidence of harm and/or defined if there were harm, what does that look like. And that's really one of the key drivers of whether there is a remediation expense and what it looks like. And then the third bucket is how consumers respond to any remediation program that's put in place.

So there's lots of uncertainty. The £1.15 billion is our best estimate. And hopefully, we're trying to give you as much confidence around how we have boxed the risk by giving you commitments around strong capital returns and strong forward-looking commitments to capital returns. We will, as a management team, very proactively manage it. But I don't see any risk here that should take me off course around driving the transformation of the business. I don't see it material in terms of the medium-term outlook for shareholders. And that's kind of really how we're approaching it.

One more thought, because it is interesting and we'll see how this plays out. Look, we're a few months in now to the whole industry having completely changed the disclosure around commissions. So we are seeing, in most cases, dealers will now show customers the full commission. And typically the customer has to sign that paragraph saying, I recognise this is a commission that you as a dealer are receiving on behalf of this finance. We have seen 0% change in customer behaviour so far. Again, we'll see how that feeds into the different reviews we've just said, but it is an important point.

As we have said, this is a highly efficient and competitive market, and outcomes are being around people getting access to vehicles with good financing. It's just interesting now that we've pivoted. We've done the perfect control group. We've pivoted the whole industry to a disclosure standard that meets the new Court of Appeal findings or standards, and we haven't seen changes in consumer behaviour yet.

Alvaro Serrano
Interesting. Going a bit more sort of into that. The government's seeking sort of pro-growth policies, and the FCA and the claims regime are part of the debate. Considering what we've just discussed, what would you like to see in any reform that can give the market confidence there's not another conduct issue around the corner, and can it be effective?

Charlie Nunn
We've always known actually from the start of my time with this organisation that working with our regulators and the government to create a more predictable regulatory environment we thought was a really important part of both enabling more growth in the economy, because the real economy hasn't seen the kind of innovation in financial services that other markets have seen, and then for us to be able to have the confidence to continue to innovate our own services.

Actually, I think both Jeremy Hunt when he was chancellor, and then obviously Rachel Reeves now, if you look at the last couple of Mansion House speeches and the one that Rachel did last November, it was incredibly constructive, we think, and we really welcome the direction of travel around those announcements. And we've had announcements, a number of them since then, including one yesterday, which is focused on identifying the FOS as a, in the language of the government, not my language, a quasi regulator, that they're now going to look at how do they position that to focus on providing customers quick decisions and a more predictable set of outcomes for the industry. So really important messages from the government. We welcome them.

The broad spirit of it is, as I would always say, is there's a core belief in this government that we need to grow as their primary mission, number one, and that a healthy economy needs a healthy financial system. At the moment, the regulatory context doesn't prioritise competitiveness and growth of the economy at the appropriate level. So when you look at the reforms that they're putting in place, that's the whole focus and intent. And very simply, we welcome what they have said.

I think the government focusing on implementing those changes, as we saw yesterday, as we saw last week as they started to combine the payment service regulator with the FCA, as we have seen with their mandate letters to the regulators to focus on competitiveness and growth a couple of months ago, keep implementing that reform, and it will enable us to have more confidence and predictability in the regulatory regime. And you'll see more innovation, more growth and more support for the real economy.

Alvaro Serrano
I just want to squeeze one last question before we open up, conscious of time. You paid down to 13.5% capital in 2024, and you have the target to pay down to 13% in 2026. That leaves quite a bit of room to increase payouts. But the question is, how do you balance the payouts versus M&A? Does it make sense to do more acquisitions like Tusker, for example, or something bigger to accelerate your transformation plan? How do you balance the two?

Charlie Nunn
So we always said this strategy, out through 2026, was primarily an organic strategy, and I don't see anything at this stage that would change that. I just go back to the £8 billion growth in mortgages when the market was trading well. That's a significant business to buy. When you look at some of the other acquisitions that we made, it'd be hard to have bought that. And we didn't need to deal with integration risk, quality of customers or any of the complexity around paying away for shareholders.

Having said that, we have done two acquisitions, Embark and then Tusker. We don't talk about it very much, but by the way, we have exceeded our synergies on Tusker. We have doubled the size of that fleet by delivering exactly what we said we'd deliver, which is bringing a unique capability into the biggest distribution network in the UK. So we have more than delivered the value on that. We will continue to look at kind of what I would say are infill or capability acquisitions that give us that kind of capability, something distinctive or competitive advantage that we can really see synergies, costs or revenues, I don't mind. But I think over the next few years, our commitment at this stage is to continue to deliver the organic growth strategy, look at specific infill capabilities.

And then every year with our board, and hopefully you're starting to see there's a good track record of this, we'll sit down with the board and say, if we have spare capital, what's the best way to distribute it to our shareholders? As you know, we have now done a progressive dividend of about 15% CAGR growth for the last three years. We did that again. And we've had a buyback program, which is what our investors have told us would be their preference on top of that, most of our institutional investors. Last year's was £1.7 billion. So very significant capital repatriation. And when you look at our commitments going forward, we're going to have more capital.

Alvaro Serrano
Great. With that, there's time for a few questions. Who wants to ask?.

Unidentified Participant
Hello. Hi, Charlie. Yesterday, a paper came out from UK Finance, I think, and it kind of looked like a bank wish list for what can be done to improve growth and the success of UK financial services. I think everybody was sort of excited about the budget last year, because politicians kept talking about it being a growth budget, but it didn't look anything like that. And it looks like they might be coming for a sort of second attempt at it.

How much further from that sort of wish list do you expect to actually get translated into things that the government might actually do? Two things -- two or three things that caught my eye. Firstly, on the UK bank tax and the bank levy. I think it's something like a 1% ROTE headwind on the sector. I'd be amazed if that happens, given that there's no money. But do you think that there could be a 10-year roadmap for that being removed? How significant do you think that is?

And then in terms of changes to the sort of prudential capital landscape. I saw something about gilts being removed from leverage ratio. Seeing similar noises on deregulation in America and the Eurozone. What do you think is important to sort of replicate from that in the UK to make sure that UK financial services are still quite competitive? Thanks.

Charlie Nunn
So great question, obviously. And I alluded to it a bit. I've been doing this job long enough that I'm not going to make a comment specifically on tax, although I think your assumption is sensible. Do I see them relaxing that short term? Probably not. And is it material to my shareholder story? No, it's not. But your point is really important.

Before I go through some of the specifics, just if you go back to the Mansion House speech that the Chancellor gave last October/November, she started with some very powerful statements. And she's done this in the press since to say, we have reached the post financial crisis reform that's needed for managing conduct and prudential stability in the UK. And as you know, even in the last few years and even today, we're still adding capital, for example, around things like our CRD IV models. So that's a massive statement. Number one, that was their first statement.

Number two, they said we have now put a strong competitiveness and growth objective, both for the financial services industry but also for the real economy. And I'll come back to that in a second. And they're asking the regulators and the government is looking to how they can put policy in place to enable that growth for the sector and the real economy. That's really powerful, we think, and important.

And number three, and the government has come out publicly on motor finance as an example, they have said they want to create more predictability and stability around regulation, especially conduct regulation.

So we think those are really important statements and are actually a shift for anyone thinking about UK financial services, certainly relative to the last 15 years. When you look at the long list of things, there's about 60 things in the UK finance report. They all feed underneath of those areas.

Now, what are we doing? Obviously as Lloyds, we're obviously closely working with our colleagues in the industry, but also closely engaged on these things. I think the thing that's most interesting, and I teed it up earlier, is we have built a strategy to focus on the parts of the economy where we can grow faster than the economy and/or -- it's typically and -- where the government's very focused on policy. So transition, infrastructure, which is a broad theme, but we're the number one project and infrastructure financer in the UK, pensions reform, and we're the number two pensions provider but remember, the biggest source of wealth in the UK is housing, pensions and then cash. We're the biggest in all three of those. So if the government wants to start getting more risk-taking of those assets, we see ourselves right at the centre of that, including democratising wealth.

SME growth, one in five SMEs we bank, and we see that as a growth opportunity. Building 1.5 million new homes. We're the biggest financer of everything to do around housing.

And so there's a broader government agenda when you look at the broader departments, which joins up with the Treasury's agenda, and we are right at the tip of the spear of all of them. Many of you know me well enough now, you can imagine we're definitely trying to play our part to try and support the government around those growth areas.

So we think it is a good intent. I think the way you asked the question is the right way of positioning it, and it's certainly the way I've positioned my discussion with the governments, which is what we need is at least five years of reform, and probably 10 years of reform, to get a financial system that's really enabled to support the economy in the way we need it to be supported going forward, if we're going to start getting productivity and growth in the UK where we need it to be. I think that's the important test we should all have, which is, do we see action on the intent, and do we see consistent change over a period of time, because there's a lot that needs to be done.

Alvaro Serrano
I've got a question on costs. And obviously, one of the other pieces that potentially could be missing around your 2026 targets, is the cost line. But more broadly, beyond 2026, in a world of digital AI, how do you think - how much of the cost space do you think you can confidently manage in a digital world that can give us a bit more sense that costs will be - that operating leverage will kick through and maybe costs will not grow 3% like this year, maybe will taper off next year or in the foreseeable future? How much control do you have costs as we think about the longer term?

Charlie Nunn
So inheriting Lloyds Banking Group, one of the lovely things about it is it manages costs in a very, very disciplined way. So your 3% included some of the regulatory changes. On an underlying basis, it was less than 2%. And when you took out the incremental investment we're doing in the growth in the business, we actually reduced costs. In the last three years, we committed to £1.2 billion of gross cost -- sorry, £1 billion of gross cost takeout, and we've delivered £1.2 billion. So cost discipline is a core part of the Lloyds Banking story, as you say.

What I love about the question is, when we look forward, we have given guidance this year for £9.7 million of costs, and we've given guidance for 2026 of a below 50% cost income ratio. And we're confident in that target. It requires both revenue growth and cost efficiency, and I think we feel good about it.

What I love about your question, though, is you're going beyond that. I'm not going to give you the percentages of the cost base we could take out in this context, but we see really significant opportunity on both ongoing revenue growth - we talk about operating leverage excluding capital - and ongoing efficiencies beyond 2026. The revenue growth, hopefully we've talked about, you can see the momentum in the underlying businesses, the market share, and then the structural hedge should continue to be a tailwind beyond 2026.

On cost efficiencies, in the last three years, we have significantly improved our capabilities around some of the use of new tech and some of the talent in the team that know how to build efficiencies. I gave you one example, which was a 30% reduction in the cost to serve per customer in the retail bank. I see lots of opportunities beyond 2026 to continue to drive efficiency and give us that operating leverage

Now, we haven't given you a strategy beyond 2026, and I haven't got guidance beyond 2026, so I'm going to avoid giving you any detailed numbers, Alvaro. But the confidence I want people to have is I absolutely see that as one of the value levers going forward, and this group now has the leading capabilities in the market to take advantage of it. That's exactly why we've been positioning - I talked about the strategy as grow, focus and change - in the change bucket, building our use of modern data, the use of generative AI and AI, which will be a big lever in this context, and then hiring the team that's capable of using that safely in this market digitally. That's been a big part of the journey that we're going to exploit as we go forward.

Alvaro Serrano
Is there any last remaining question? Alex.

Unidentified Participant
Yes. Morning. Alex from Eleva Capital. A quick one on the CIB. I think you're growing your CIB. You are not a natural player when we think about the CIB. Can you just help us understand what you are doing in this area? Where do you want to go? Which area are you looking for? Thank you.

Charlie Nunn
Brilliant. Thank you for the question, Alex. It's something we're really proud of, actually. And I gave you one of the data points earlier. We have grown the other operating income in our corporate and institutional business by 30%. It's been a really significant

source of growth. Like many CIB businesses, back in 2021, it wasn't covering its cost of capital, and it now is, and we see significant growth. I won't give you the full numbers.

But where are we growing, which is the core question. It's kind of an untapped franchise, I think, in the context of Lloyds Banking Group, and it's been really good and exciting to grow with the business. We laid out a very simple strategy that said we're going to be focused on cash management, DCM and debt, and then risk, but linked to those businesses, specifically rates and FX linked to those businesses. We have the leading corporate relationships in the UK. So number one in project finance, number one in housing, number one in sterling DCM. So we're big in the context of our market and where we focus, which is important.

But we also play a very important role with financial institutions globally, doing business into the UK and out of the UK. If you think about, you'll get this immediately, we have some of the - well, we're the biggest sterling balance sheet in the world - so we have some of the biggest capital and funding and structural hedge positions we need to take. So as we build positions with our financial counterparts, we make sure we're getting the right value exchange on both sides of those deals. We also manage over £200 billion worth of pensions, assets and investments, so we make sure real money managers are working with us.

And on the private equity, private sponsors business, we're the biggest originator of most of the asset classes they want access to in the UK, and we're a very big sponsors provider. So we've been able to grow those businesses significantly across our treasury business and our core franchises and our origination capability, and that's been exciting. And of course, we will work with our corporates as they go into other markets.

So yeah, we've grown the business well. It's a high returning business. It's a low risk business. It's operating around our real clients and real flows. And it has a very strong financial institutions business, because as a national champion, we don't compete with most of the major banks in the world, and most people want to do business with us. And if they're doing anything in sterling, by the way, we're number one in everything. We clear 30% of domestic payments. We are the number one in gilts, number one in FX and rates for some of those products.

So it's been a great part of the story and we're going to continue to be ambitious in that space. And it'll be very differentiated because it's linked to the real flows of our clients, and it's a low risk business model that will give us higher returns than the normal CIB business.

Alvaro Serrano
Great. If there's no more questions, we're just approaching the time limit. So we will leave it here. Thanks very much, Charlie. Very interesting session. Thanks.

Charlie Nunn
Thanks, Alvaro. Thank you.

END

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward-looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward-looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact and statements of assumptions underlying such 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, targets, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward-looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market related risks, trends and developments; changes in client and consumer behaviour and demand; exposure to counterparty risk; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic and other disasters; risks concerning borrower and counterparty credit quality; risks affecting insurance business and defined benefit pension schemes; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks including risks as a result of the failure of third party suppliers; conduct risk; 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; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions) and decarbonisation, including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document whether as a result of new information, future events or otherwise. 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