LLOYDS BANKING GROUP PLC – 2024 Q3 IMS – SELLSIDE ROUNDTABLE TRANSCRIPT
(amended in places to improve readability only)

Tuesday 29 October 2024 – 4.30pm

LBG:
William Chalmers, Chief Financial Officer

William Chalmers
Thanks very much indeed operator and thank you to everybody for joining this afternoon. I thought I'd kick off with a couple of quick comments and then hand over to you all for questions. You saw at our Q3 that we produced a set of robust financials. That was in the context of strategic delivery on an ongoing basis in line with our plans, good balance sheet development pleasingly on both sides of the balance sheet. That is the assets and also liabilities, deposits. And then, a strong P&L; as you know, we achieved a RoTE of 14 per cent year-to-date, and that all allowed us to reaffirm guidance in respect to 2024 and indeed express confidence in our 2026 commitments. So all of that is I think, good progress in the context of Q3.

Now the second point, I realise that since Q3, we've had the Court of Appeals ruling in respect of Wrench, Johnson, and Hopcraft. I'm sure you've all paid attention to that. We put out our RNS on Monday morning, so I thought it might be appropriate just to kick off, to set expectations essentially, which is to say that we set out in the RNS pretty much all that we can say right now. So I have no problem in taking questions, but I have to set your expectations that there's not terribly much I'm going to be able to say beyond the RNS. But with those two points in respect of our Q3 performance, in respect to the Court of Appeals ruling, perhaps I can leave it there and hand it over to you for questions.

Question 1 – Andrew Coombs, Citi
Afternoon, thanks for taking the call. I appreciate your last comment, that there's not much you can say above and beyond what was in the RNS, but perhaps I can ask you three conceptual questions I guess linked to the Court of Appeals ruling.

So the first thing is, given what the ruling has stated about disclosures, about redress, even based on a flat fee model, presumably you will have to review and revise the assumptions that were behind your £450 million original provision. And would you look to do that in Q4, or would you wait until 2025 when we have more detail around either the Supreme Court ruling or the FCA outcome? That's the first question.

Second question is, given the commentary around disclosure and fiduciary duty, do you think there is a risk that this gets extrapolated to other third-party products above and beyond Motor finance?

And third and final question on this, I know whenever we ask you about buybacks, you always say it's a decision for the board at the year-end. But do you realistically still think you can pay down to a 13.5 per cent core tier one ratio with so many unknowns and uncertainties around this now? Thank you.

William Chalmers
Thanks, Andrew. I'll take those in turn. First, in terms of the question around the scope of this exercise, as you know and as you'll have read about in our RNS, we believe the scope of the Court of Appeals decision on Friday goes beyond the scope of the FCA review, that in a way was the reason for putting out the RNS. The FCA review deals with issues of fairness in relation to commissions. The Court of Appeals deals with issues of disclosure in relation to commissions. Those are two different things.

You asked about our approach in respect to Q4 and indeed looking into 2025 as we address this. It's worth just briefly pausing on the uncertainties that are out there, Andrew, and that will help give you some insight into how we look at it. When we look at the uncertainties here, there are many of them. And many of them in fact, most of them are external, i.e. not here at our disposal.

So what do I mean by that? I mean most obviously the Supreme Court appeal. I also mean the fact that the Court of Appeals delegated the remedy to the lower courts and there's uncertainty about what that remedy might be. I also mean there's a bunch of fact-specific issues here that will determine the relevancy of that ruling in each case: customer circumstances, for example, vulnerability or otherwise, sophisticated customers, likewise, documentation likewise, what's the relevance of the sales process and how is it conducted? Likewise.

All of these issues require judicial clarification, and that's before you even get to your second question, which is around read across, and I'll come back to that in just a second. But within motor, does it apply to regulated or also non-regulated business?

What's the FCA going to do? Is the FCA going to pause complaints across the entire motor business or not? What's the split going to be between complaints and litigation? Likewise, in similar spirit.

Andrew, these are all uncertainties that are not at our disposal, and so in answer to your question, will we deal with it in Q4 or will we deal with it in 2025, it will depend upon how those uncertainties resolve themselves.

Second question, Andrew, disclosure on fiduciary duty and the read across questions. Short answer is we're looking at that. You'll be aware from having read the decision no doubt, that this is about consent, not about the product; hence we're looking at it.

The third answer to your question, Andrew, on buybacks and capital distribution commitments, in respect of capital, nothing changes what we have said on capital to date, and that goes to both capital generation and it goes to capital distribution. Now, we clearly have the Court of Appeals decision out there and we're considering that, as you can tell from my comments. But there are a lot of uncertainties. I've just been through most of what those are. And those, let's face it, are likely to persist for a while. They're not going to get resolved overnight. If any of that changes, Andrew, we'll obviously come back to you, more importantly, the market as a whole. But in the meantime, we're strongly capitalised. We're well ahead of target as you know, and we're highly capital generative, and right now that has not changed. Thanks, Andrew.

Question 2 – Ben Toms, RBC
Afternoon, William. Thank you for taking my questions, these sessions are always very helpful. Two questions please, one on Motor finance, and then I'll give you something else to talk about so you don't have to talk about it all afternoon. The first one is procedural. Yesterday, First Rand told us that they've applied for a stay of proceedings on all other cases that are in the courts that deal with motor finance. Are Lloyds looking to ask for a similar treatment? And then secondly, the government is due to increase the size of the ring-fencing threshold from £25-35 billion. Could you just provide a comment how you expect this might lead to a change or increased competition in the deposit market and timing in respect to that? Thank you.

William Chalmers
Thanks for your question, Ben, the first question was around the procedural opportunities, if we like, to stay court cases. The answer is then it very much depends upon the particular cases. And so, there is no stock answer that we can give in that respect. It's rather dependent upon the cases at hand, the court that is dealing with them, and the view the court takes of our ability to stay for many of the reasons and many of uncertainties that I pointed out earlier on. So the court will take an individual case by case stance on that.

Ben, your second question on the ring-fencing move from £25-35 billion, I think the first thing I'd say on that is it's worth stepping back and looking at the ring-fencing reforms in their totality. And actually, there's quite a lot in the ring-fencing reforms, including the potential wider scope of ring-fencing activities that actually make our life quite a bit easier if those reforms are implemented in full, which is our understanding. So we welcome the reforms to ring-fencing generally, they will improve, , operational flexibility and indeed commercial opportunity in respect to the Group.

You asked specifically about £25-35 billion. It may be at the edge, it'll allow the odd competitor here or there to gather a few more deposits before they necessarily cross ring-fencing thresholds. But I think in the scheme of things, Ben, this is pretty de minimis in terms of its overall impact.

And alongside of that, as you know, we have had a very competitive and benign deposit experience so far. For example, deposits went up £1 billion over the course of the quarter. That follows a number of successive successful quarters in recent periods.

And most importantly perhaps then, the deposit market right now is behaving very rationally. That is to say if you look at the repricing of deposits off the back of base rate reductions in August, that shows a pretty rational deposit market without excess competition, a market in which we've been taking significant share. And we don't expect those two points to change, Ben.

Ben Toms
Thank you very much.

William Chalmers
Thanks.

Question 3 – Alvaro Serrano, Morgan Stanley
Hi, good afternoon William. A couple of questions on motor, just to try to do some kind of numbers. Is your understanding that when we look at the liability, are we just looking at returning the fee portion because I think there's several things going around?

Or is there a risk that you have to pay some kind of compensation, the interest on the whole loan? Are we basically in most cases talking about the fee element of it?

And the second question, just to try to think about the impacts, until now, you've explained that you've applied a sort of probability weighted scenario. I think it's fair to assume that the weightings will change to a more difficult environment. But your statement before is whatever the outcome, it doesn't get in the way of distribution. Presumably that's on hold, that last comment. That's my second question. Thank you.

William Chalmers
Thanks, Alvaro. In respect to the liability that might come out of any application of the Court of Appeal ruling, that indeed is one of the uncertainties. You look at what the Court of Appeal ruling did in the main, it basically delegated remedies down to the local courts. So Alvaro, I can't really answer your question, and indeed that is one of the uncertainties that we're dealing with, which is beyond our control and rather in the hands of the litigants in a particular case.

On your second question, the probability weighted scenarios, you'll be aware that when we discussed the £450 million in the context of the FCA review, there were probably two or three particularly important variables against which we could probability weight scenarios. And that's in turn what gave us the ability to estimate the £450 million. When we look at this situation, there are many, many more uncertainties. I've just been through them in that context with Andrew. And you can tell from that, that it is not as simple as the FCA case. There are no confined variables. There are many, many of them.

Alvaro, if your question is around distributions, all I can do is repeat what I said to Andrew earlier on, which is that there is nothing that changes what we said on capital generation and capital distribution. We recognise the uncertainties of the Court of Appeal cases and we're looking at them. But these uncertainties, they're going to persist for a while. And in that context, if anything of that changes, then we'll obviously let you know. Most probably you'll see it, because it will be in the public domain. And as a result, Alvaro, we stand by the statements we've previously said before, strongly capitalised, we're above our target, we're highly capital generative, and we are committed to distributions.

Alvaro Serrano
Thank you.

William Chalmers
Thanks, Alvaro.

Question 4 – Robert Noble, Deutsche Numis
Afternoon William, thanks for taking my questions, I'll hit another consumer finance one. What's your understanding of what the regulations were on disclosure prior to the FCA setting them in 2014? I presume that you were also in line with those, whatever you tell me the regulation was before then. But were the broker commission arrangements all secret in the industry in their own definition, right, rather than our own terminology? Were they all secret prior to 2014 industry-wide, were yours, and what was your understanding of the regulation at the time?

And then one business as usual question, I think you said that the pass through on deposit pricing was 50 per cent on the rate cut, right? So why not pass through more? What goes into that process? And how should we think about that evolving with additional rate cuts going forwards? Thanks.

William Chalmers
Thanks for the question, Rob, and as with Ben, thank you for the relief on the motor questions. Let me just take them in turn. The regulations on disclosure, I can't clearly comment for the industry as a whole. What I can do is obviously comment on our own disclosures, which we believe were in line with regulatory and legal obligations throughout this period.

Now, as you'll be aware, those legal and regulatory obligations evolved through the course of the period, and we evolved with them, so in particular, there was a change in the structure of our discretionary commissions in 2016. There was then a further change in line with FCA guidance in 2021. The key point is that throughout this period we were operating in line with regulatory guidance, number one, and with effectively legal cases, i.e. legal authority number two. And if I make a comment slightly beyond that, it surprises me that a court of appeal turns over what has been agreed by relevant parties in the financial services system. But obviously that's a legal judgment rather than for me to opine on. In that spirit Rob, roughly speaking, I think industry standards were somewhat of a commonality, but I really can't comment on what others got up to. Safe to say as said, we believe we were in compliance with regulatory and legal obligations.

On your second question around BAU, the 50 per cent rate cut, overall from the industry point of view, as I mentioned earlier on, we saw a pretty rational response actually to the August rate cut, which I think is a construct of an environment, an industry that feels comfortable overall and is behaving rationally in the context of deposit pricing and deposit gathering.

We passed on around 50 per cent. We actually passed on within Retail a little bit less than 50 per cent, not much, but just a little bit less than 50 per cent. And why did we do that? It's really just to maintain the competitive position of our products. As you'll be aware, we've progressively passed on a bit more as rates rose. We passed on less when rates started rising and we passed on more as rates fleshed themselves out towards the second half of 2023. We are then passing on a little bit less as they come down from the peaks and that dynamic might well evolve in the inverse way as rates come down. Let's see. But that explains a little bit why we passed on a touch below 50 per cent off the back of the August rate cut, to make sure that our products were as competitive and as attractive to customers as possible, in line with meeting all of our net interest margin, but also broader profitability goals, which we feel that we had plenty of room to do. So, I hope that helps, Rob.

Robert Noble
Sorry, just to clarify the language there, just so we're not getting things upside down, so the pass through deposits went up as rates went up, right? And now they're coming down, I would've thought that you would've passed through more at the beginning and then less as it went down. So are you saying the 50 per cent gets lower?

William Chalmers
Rob, let me try and help. In the early days when rates started rising, we, and I think all other banks tried to recoup margin s back to where margins have been in the more normal rates environment. And so the pass on, not just from us but from the industry as a whole was relatively modest in those early days and as said, that was simply trying to get margins back into a respectable place that was more akin to where they had historically been. Now that's the early days.

As base rates continue to go up, more and more of the base rate increase was passed on to customers. So by the time we got to our final stage of the rate increases, which I think was in the second half of 23, we were actually passing on in excess of 50 per cent to customers. Now what we're doing in reverse is basically symmetrical. We're passing on a little less than the rate reduction to customers to preserve the customer value and we can afford to do that for all the dynamics in respect to the margin that we discussed last Wednesday and we may well get on to on this call. I suspect that as the base rates come down, certainly if they come down measurably, then that pass on might start to adjust.

Robert Noble
Got it. Thanks very much.

William Chalmers
Thanks, Rob.

Question 5 – Ben Caven-Roberts, Goldman Sachs
Yes, good afternoon and thank you for taking my questions. So just to provide some relief on the motor finance topic and ask two sort of broader questions. Firstly on the lending, has the mix of demand between sectors or loan types been changing at all over recent months and are there any segments within that which are outperforming your expectations or where you've been feeling incrementally constructive looking ahead?

And then just next on asset quality. So you touched on this of course in the call last week, but I just wanted to see if you could provide any extra colour as you've been highlighting an improvement in mortgage new to arrears and default rates in Q3. So when you're looking forward, are you seeing any potential for an inflection point in the future as you have more mortgages refinancing at higher prevailing rates or would you say you're relatively sanguine on the outlook in spite of the fact there is still some refinancing out of lower rates yet to come?

William Chalmers
Thank you for those questions, Ben, I'll take them in turn. In respect of lending, at a high level, I would say that we are pleased with our Retail performance. So what do I mean by that? We've seen £3.2 billion in the mortgage book over the course of quarter three that has been complemented by decent performance in cards, albeit a little bit more modest in the course of quarter three. But nonetheless, if you look at it over the course of the year as a whole, it's up around £0.6 billion. Loans likewise have shown a pretty good performance, personal loans that is, up £0.6 billion in the course of quarter three. But Ben that is being flattered by the absence of repayments because of the securitisation at the tail end of last year and the absence of those repayments means that we're putting on new lending, but we're not seeing the repayments come through on the balance sheet.

And as a result, that number is good underneath it, but it's not as good as the headlines would suggest. I think it's roughly half-and-half. So it's up around £0.3-0.4 billion in the course of Q3. So I think Ben, all of that looks pretty good from a lending perspective and we're pleased to see it. The inputs into that and the reasons why we think it has been performing strongly is in part because we've seen solid economic activity. But I think Ben it's also fair to say that it is partly because of our strategic investments. And so what do I mean by that? In the context of unsecured, for example, we've launched a product called Your Credit Score, and alongside of that, we've had platform builds in certain parts of our unsecured activities and those have al lowed people to move very quickly from effectively a credit check into a product. And alongside of that have also offered innovative products.

That's an example in the unsecured space. Likewise, in mortgages, we've been investing heavily in intermediary journeys to facilitate the intermediary journey. And as a result what was already, I think a strong intermediary proposition is being aug mented, is being accelerated, is being facilitated by much of the investment we've been doing. That's a Retail picture, Ben. If we go beyond that to look at the Commercial picture, it's a bit more variegated. And so what do I mean by that? I mean, BCB for example, as you'll have seen was a touch down in Q2 to Q3. Now you can't see that in the numbers because I think we are disclosing commercial balances, but within commercial balances, what's going on is that C&I is up a touch and BCB is down a touch. What's going on within that? BCB is effectively experiencing meaningful repayments of government backed lending in a way that is offsetting the underlying resilience of the core franchise. And on top of that Ben, within BCB, we've got a borrowing vis-a-vis the customers that is relatively static. We're not seeing that much demand come through in terms of the BCB customers. And so overall that's I think leading to a relatively weaker performance, let's say in the context of BCB than what you're seeing in Retail.

And then finally in C&I, we are seeing some good lending in respective target areas. For example, infrastructure, for example, some of our product groups, but where we look to make lending decisions in C&I, Ben, we are very disciplined about what we want to see on the balance sheet and we ensure that that group is very focused on , forgive the investment banking term, but velocity effectively on the balance sheet. So that's hopefully useful in respect of lending, Ben.

The asset quality discussion, is a very positive asset quality discussion as you can tell from the overall numbers. And I know that you asked about the underlying, which I'll come to in just a second, but for a moment just on the numbers as presented . Observed impairment charge of £172 million in the quarter. That is 15 basis points in the quarter, which is extremely benign. But as you know from our presentation, we got helped in that respect by about £80 million or thereabouts of debt sales. And if you add that back to the £172 million, you're looking at an underlying asset quality rate of around 24 ish basis points, 24, 25, in that zone, which is still materially below our run rate expectations of c.30 basis points. So that's the underlying Ben, and I would expect that underlying to more or less repeat itself going into Q4.

Now you asked about what's going on underneath the hood as it were. In short, the answer is it continues to be if you look at the lead indicators, they continue to be really very comforting. So specifically what do I mean by that? I mean new to arrears for example, continues to tick down not by much because it's already at very low levels, but if you look at quarter two versus quarter three new to arrears, you are going to see them down by a basis point or two. And that's pretty much across the product line , Ben. Doesn't matter whether you're looking at mortgages, personal loans, credit cards and the like, they're all demonstrating similar patterns. Likewise, if you look at things like flows to default, if you look at things like write-offs, all very, very benign.

Staying on the retail theme, if you then look at early warning indicators, things like minimum payers on cards, for example, things like unauthorised overdraft usage or for that matter, overdraft utilisation in totality – again, very, very stable pictures. Moving on to wholesale, a similar pattern. So if you look at things like watch list or BSU, stable to down, depending upon which particular metric you're looking at and the throughput on things like BSU, i.e. the cases that are entering BSU and then getting out of BSU continues to be very comforting, very positive.

So Ben, we're really not picking up any indicators of challenge within the asset quality line. If anything, it continues to g et a nudge better. Now the next question is are we at a floor? I don't know, but if it continues to go down, that'd be a very good thing. I guess it feels like we may be reaching a floor if we're not already there, but it's hard to say Ben, but that would be my judgment.

Final point, Ben, you asked about mortgage refinancing specifically and I thought it might be interesting just to give you a bit of background on that. We've got about a £270 billion fixed rate book, the performance of that book, as you can tell from my new to arrears comments, i.e going down, is remarkably resilient. In terms of how far through are we on the refinancing of that fixed rate book, we think we're about two-thirds through. So we think about two-thirds of that fixed rate book is now refinanced onto higher rate levels, so circa £170 billion for the sake of argument, £170-180 billion. And in that context, two things. One is the totality of new to arrears has gone down, as said. Two is even the more sensitive areas of that mortgage book by which I mean the heritage book that was originated back in the 2006-2008 type period, that performance has come back in line as well. So hopefully that gives you a picture specifically in the context of fixed rate mortgage book, Ben.

Ben Caven-Roberts
Very helpful, thank you.

William Chalmers
Thanks Ben.

Question 6 – James Invine, Redburn
Hello William, thanks for taking the questions. I've got two please. The first is back on car finance. I think you're continuing to write new business. So I was just wondering how long is it going to take to make sure that your new business is compliant with the disclosure requirements that we've seen from the court of appeal?

And then the second question is just in terms of OOI and a good performance there so far this year. I was just hoping you could unpack that a little please, between the underlying performance and the strategic initiatives. I know you're targeting £700 million for this year. Where are we on that journey at the moment?

William Chalmers
Thank you James. The first question that you asked is in relation to new business in the motor area, obviously. As you say, our new business proposition remains open. What's going on there? First and foremost, it's about customer focus. That is to say we've got a strong motor proposition and we intend to stick with it and indeed stand by our customers. The second point, James, which is important, is that we are very rapidly adapting to the court ruling of Friday. And in that context, we believe that we can put in place extremely quickly a compliant, basically no commission standard. And as a result, remaining open to new business confers minimal risk. Now that, when we step back, means that we believe that we can put forward a proposition which is both constructive for our customers and also constructive for our business. We've obviously kept the regulator fully abreast of what we're doing, and indeed they have been very constructive in the conversations that we have had with them. And so I hope that that allows us to maintain a proposition which as said allows us to deliver on our overall purpose of sticking with customers. And forgive the reference, but Helping Britain Prosper.

Second point, James, underlying versus SI on OOI. Maybe a comment first of all on where we are with OOI right now. As you say, Q3 continues to represent a strong performance which carried on from the previous quarters during the year, £1.43 billion. That's up about 9 per cent year-to-date Q3 on Q3. Underneath that, what is going on in terms of the puts and takes because as you know, Insurance, for example, will sometimes experience weather. LDC for example, will sometimes experience exceptional quarters. Sometimes on the treasury line with an OOI you might see gilt sales, those types of things. But in essence, James, the underlying is pretty much identical to the headline. So, when we say 9 per cent increase in OOI Q3 year-on-year, that is both the headline point and an underlying point. I think I commented last week, but what are the drivers for that in Q3 and in particular in Q3, it is Retail and it's LDC and the equity businesses.

James, your question was also around the kind of business as usual versus the SIs. I think overall there's a contribution from both, to be clear. We're seeing some contribution from increased levels of activity within the BAU, if I can call it that. And we're seeing some contribution from SI off the back of investments across the business, Retail, Commercial, IP&I, and to a lesser extent the equities business, all of which is contributing. I won't put a precise number on that James, but they are both making meaningful contributions to that year-on-year increase in fact to the Q2 versus Q3 increase as well. Where are we in the mark to market of the £0.7 billion incremental revenues that we've committed to? We don't split that up precisely in terms of NII versus OOI, James, but the OOI contribution of that £0.7 billion is meaningful and the £0.7 billion as a whole is on track. We'll talk more about that at the end of this year, i.e. February 2025 when we report in the full year. But the number £0.7 billion is very much on track. We're very confident about delivering that.

Final point, James, when we look at 2026 commitments, as you know, we've committed to £1.5 billion in 2026 in respect to their size. Two comments, one is that is split roughly 50/50 OOI versus NII and two is we believe we're on track both for the total quantum and roughly speaking the split. So again, we'll report back on both issues end of 2024 and then respect to 2026, end of 2026. But hopefully that gives you a picture.

James Invine
That's very helpful, Thanks William.

William Chalmers
Thanks James.

Question 7 – Aman Rakkar, Barclays
Hi William, thanks very much for your answers so far. I really appreciate it, tough topic. I want to ask one more on car finance - I suspect I might be testing your patience here, but just about your understanding of your approach to commission disclosure post 2020. So post the period that the FCA enacted their ban. And I don't know if you've had a standard approach or philosophy around the extent to which you disclose the commission i.e. the existence of or indeed the amount and indeed whether it's consented to, is that a standard that maybe you adopted post 2020? Any colour in terms of your philosophy or thought process around commission disclosure? You've indicated it's kind of changed as the FCA have arrived at their various updates through the years.

One on the business. I note the comments and the discussion around costs on the call last week, I think you referred to a flatish cost profile beyond this year but not quite flat. And I did look at consensus. I think consensus has got roughly 1 per cent growth in each of 2025 and 2026, which I think looks pretty flat to me. And I guess without you necessarily giving the guide, which I'm sure you don't want to give now, but to me it was too optimistic around that profile in 2025 and 2026. Is there any chance you could comment on that please? Thank you so much.

William Chalmers
Thanks Aman. Just taking each of those two questions in turn, the commission's position post 2020 was an overall change in practice to be in full compliance with the regulatory FCA standards and indeed anything that came down from the courts at that time. So rather than me comment on the particularities, of forms and so forth, as I said in compliance for the regulatory and legal commitments at that time. Proceeding that as said, we had a change before that in respect of 2016 to the structure of discretionary commissions. But I think I'll leave it there Aman, in respect of the overall approach to commission's disclosure as said fully in line with regulatory and legal requirements on the cost point Aman, the comment that I was making around costs for this year is clearly that we'll meet our £9.4 billion. That as you know is a very clear commitment and we have a good track record of meeting those commitments.

In respect of next year, I hope I didn't go so far as to suggest that the cost base was going to be any particular or precise number, but I did as you say, comment on the fact that we expect it to be flattening over the course of 2025 and certainly into 2026. And what is the dynamics of that? It's the factors that you'll be understanding of and familiar with around A) BAU cost management and B) realisation of the gross at £1.2 billion that we were committed to alongside three, the flattening off of the depreciation line, which doesn't really happen until 2026 because our cash investments are going on this year and indeed therefore creating a depreciation lag in respect of 2025.

So Aman, I won't go beyond that. We'll come back to you clearly in February of 2025 with an expectation for the year, which will be very, very clear as it always is. And then as you know, in respect to 2026, looking further forward, we're committed to a less than 50 per cent cost to income ratio and we stick by that commitment.

Aman Rakkar
Okay, thank you so much.

Question 8 – Chris Cant, Autonomous
Good afternoon, thank you for taking the questions and thank you for trying to provide some assistance around this motor finance issue. I do have questions on that, I'm afraid. Just coming back to the same topic as others, one thing that I found somewhat alarming with the court of appeal ruling and I'm interested in your view on is the fact that the appeals were seemingly granted primarily under common law rather than statutory law. And when we've all done our maths earlier in the year in relation to the FOS rulings, that was all tied into the Consumer Credit Act and that put certain temporal bookends on it in terms of only going back to the point that the relevant provisions came into legal force. If this court of appeal ruling stands, should we now be worrying about much earlier lending, i.e. lending from the very early 2000's, lending flows in the 1990s? Could this go back in time the same way that PPI did? Because actually it's no longer about the Consumer Credit Act, it's about common law, bribery and fiduciary duty.

And related to that, even with the thing that you've been dealing with so far this year, can you give us a sense of what the documentation situation is around this issue for Lloyds? I'm conscious that post PPI we've had GDPR and I presume there's a bit of a tension here between a legal obligation to dispose of customer data where you no longer have a meaningful relationship with them and an apparent regulatory desire to produce the same information when a customer complains. And particularly going back, if we do go back a very long way in time, is that at all practical and how might that be handled?

And I'm also very interested in your comment about moving to a no commission model. What does that entail, out of curiosity? It feels like if this ruling stands, it could really shake up the motor finance market and how car dealerships make their margin if they're no longer able to earn a commission on finance. But are you basically saying you move to a sort of a commercial

relationship where you pay them for putting the product in the shop window and cut them off eventually if they don't sell eno ugh? Or does it stop being on a unit basis? Is that the way around it? But interested in anything you can share there? Thank you.

William Chalmers
Sure, thanks Chris. Three questions there, unfortunately all on motor, but nonetheless I'll take the three of them. Common law, Chris, as you say, the case seemed to rest on certain principles from common law. It isn't totally clear and therefore what is the common law versus the FCA component of this? As said, not entirely clear. From our perspective, at least it's one of the issues that we're considering. It's yet another of the issues that is an external exogenous factor not under our control. We're tryi ng to figure out what is the situation in respect of that. It's also one of the situations, one of the issues I should say, that wi ll require further judicial clarification before anything much can happen or we can move further forward.

The overall stance on that point, Chris, without elaborating on the legal detail of it, is that we think it is probably low r isk in no small part because it is very difficult to look at appropriate remedies that go back that far. But there are also excellent legal questions about what exactly the ruling was saying and what the obligations might be. So it is not to rule it out, Chris, but equally we think it is low risk. Second point, your question around documentation is asking me to comment on our data retention policies, which I'm not going to do.

Third question, Chris, no commission model. How does it work? I think it's a very fair question. I'm going to leave the motor business to explain that to the dealers in the first instance rather than have me try to explain it on an analyst call, which to be fair to me, I'll probably screw up, so I don't want to do that. As a result, all I'll say is that the stance that we are taking is to put in place rapidly a fully compliant model and that's in turn what allows us to keep the business open.

Chris Cant
Okay, thank you.

Question 9 – Edward Firth, KBW
Afternoon William, thanks for the questions and I'm afraid I'm still on motor. I guess it's a slightly broader question this time rather than specifics of this particular case and what may or may not apply. But can I just check my understanding that the sort of push in the funding for all these claims has effectively come from the claims management companies that I guess came out of PPI with pots of money and looking for places to put it to work in a sense. So first going to say, is that right and if it is right, to what extent does this concern you? Because we can all look at this particular case and argue the details of which law it comes under and whether it will apply to premium finance or anything else, but it seems to me that if you have these well-funded companies, there is nothing to stop them now just going through area after area of your business going back over many years and just keep effectively setting up one class action after another because they're not short of money these days. So I guess that's firstly is my understanding correct firstly?

And then the secondly, could you just help us a little bit, I don't know how much you can tell us, but what discussions you've had with the FCA because it seems to be pretty extraordinary that you have got something going on which is making UK banks certainly for overseas investors pretty much uninvestable and they are sitting there doing absolutely nothing until May 2025. And if the Supreme Court, by the sounds of it, doesn't give us a verdict by then, there seems every chance that they're just going to wait another however many months until the Supreme Court comes. So, is that basically their position or can you help us at all in terms of how they're looking at this and what they might try and do to try and make the sector at least marginally attractive to investors?

William Chalmers
Thanks, both good questions Ed. The first question CMCs, I guess a couple of points that I would make. Clearly the CMCs are out there, they're very active and coming off the back of the PPI exercises, they're quite determined to see what the next opportunity might be. And this may or may not be one, we don't really know because we don't know what will happen as a result of the Supreme Court appeal or for that matter, the FCA determination. And I mentioned earlier on one of the uncertainties here is the complaints vs solicitation mix. But the reason why the FCA got involved early on was to try to make sure that there was an appropriately structured remedial setup, which would've taken CMCs basically out of the picture. That was one of the, maybe not expressed, but it was one of the implicit objectives of the FCA taking action.

And so we'd be very encouraging of any type of remediation within financial services if it has to happen at all to be dealt within in the same way because taking the CMCs out of the picture is to the benefit of everybody frankly. And that's, I think, where this was going. Now, in the context of the latest developments as of Friday, I mentioned again that there are another of uncertainties in the extent to which this is a very fact specific finding. And to the extent that it is a fact specific finding allied to, legal q uestions around vulnerability or specific customers, and many of the points I made earlier on, that creates the, or rather prepares the ground for a

case by case litigation. So the CMCs can fight, but so can the financial services companies. To the extent that it can be dealt with on a case-by-case investigation basis, that's a very different outcome. So far, class actions have not really been successful. I don't want to comment too much because, as you know, I'm not a legal expert. But the class action has not really happened in a way that has changed what I've just said. Again, one of the uncertainties out of the existing situation with respect to ruling on Friday is the extent to which this is simply a case-by-case fight or whether it's something more collective and it's an uncertainty. I should probably stop there rather than opine more on legal issues, Ed.

The second question that you mentioned around the FCA, I think the FCA in part got hold of the initial motor issue with the objective of expediting the process. And in turn, I guess behind that was an ambition, I would hope, an ambition to ensure clarity, which is something that we all obviously would benefit from and believe in. To the extent that this process has stalled and to the extent that this process now relies upon some Supreme Court resolution, then in turn that I think is challenging and I think it is fair to say that we would hope the regulators will heavily lean into this situation in order to encourage a speedy resolution.

Now what can they do in that context, Ed? I think a couple of ideas. One is they can submit thoughts to the Supreme Court judicial review process and hopefully get that expedited. Two is they can also think about a stay of motor complaints. That is to say in the same way as they did with the FCA inquiry because the courts have let the remedies be set or delegated the remedies. Conceivably the FCA could gather all of that together and say we want all motor complaints to come into our review, to bring them all together. Now whether they will do that or not, I don't know. Again, it's one of the uncertainties that I mentioned earlier on.

But I do think the FCA, or at least I very much hope the FCA and I very much hope the PRA set a lot of store by the investability of our sector and I think a lot of what they set out to do is in line with that and in turn in line with the ambitions that I think we all have these days to try to ensure that capital within the banking sector is invested in the resilience of the banking sector, is invested in lending to our customers and helps the UK achieve its growth objectives and doesn't result in a remediation pile up.

Edward Firth
Okay, thanks so much.

William Chalmers
Thanks, Ed.

Question 10– Jonathan Pierce, Jefferies
Hi William, three questions please. First on motor again, sorry about that. Just checking on the zero commission point, which was interesting, do you know if you are dropping the APRs on the associated loans as well? I'm just wondering whether we need to go away and upgrade our forecasts on the back of this.

The second question at some point, do you think it might be helpful to give the market a bit more disclosure on the motor book? I mean I accept there's lots of things you could do with that data. But it strikes me a lot of your business, certainly post JLR was done at relatively low APR. So I don't know what point you think that might be helpful or you're just going to continue to keep that to yourself.

Third one. On the hedge, the language on the tailwind next year seems to have changed a little bit in the last few days. I think earlier in the year you were saying the tailwind would be a touch above the tailwind in 2024. But now that 'touch above' seems to have disappeared. So are we looking at a slightly more meaningful step up in the hedge tailwind in 2025 as well as 2026?

William Chalmers
Thanks, Jonathan, just to take each of those in turn and welcome back by the way. The first of those two, zero commission. Not that it matters much, but I think I said no commission. I'm not sure there's a distinction between the two, but just to stick with that language. I won't comment too much on the rest of the proposition. As said, it is being discussed in due course with dealers and I'd like that discussion to take place. My point was simply that we can get in place, or we are getting in place I should say, very, very quickly a compliant structure which in turn allows us to operate going forward.

You mentioned I realised somewhat with a dose of irony what that will do to the proposition going forward. The only observation I've made there really is that it's hard to escape the fact that there are many other providers around us who are turning the sales processes off. We will clearly only accept business that we believe to be of the highest quality in that respect. It may be that business finds its way to our door because of this approach, but we will only be accepting business that is of the highest quality within our risk parameters, meets all of our profitability thresholds and so forth. So we've got to be very, very careful. The intention is to support, as said, important existing clients.

The second of the two questions, Jonathan, it's a very fair question around disclosure. We have taken the stance so far, as you know, to limit disclosure. The reason for that is because we don't want to be caught making arbitrary judgments about what we do disclose and what we don't disclose and claim that those disclosures are the perfect remedy to analysing the position or determining what an issue might be or size it. As a result, we have tended to stay away from adding further disclosure clearly beyond what we've already done in respect of the £450 million.

Two points, really. One is there are even more uncertainties here than there were earlier on this year with respect to the motor issue. I suspect that will make us shy away again from disclosures because the uncertainties are so great, number one, and because most of those uncertainties are external to us, number two. And whatever the determination of those external uncertainties will be, the list that I gave earlier on, that determination is likely the dwarf characteristics of our book. That's perhaps an overstatement, but it is likely to be greater than the characteristics of our book. So again, that will probably make us shy away. But final point on this topic, Jonathan, we are going to keep it under constant review clearly and understand the hunger from the market. We're going to keep it under review.

Third question, Jonathan, structural hedge. The structural hedge is refinancing relatively fast. As commented the other day, we had a 10 basis point contribution from the structural hedge in Q3. There is continued strong contribution from the structural hedge in Q4 and that continues into next year. Just to give you some idea, some further data on that, which you may have figured out. But in lieu of that, the Q3 yield is around 1.8 per cent, the 2024 yield this year is about 1.7 per cent. We'll exit it around 1.9 per cent. Gives you a sense as to where we're going in the structural hedge.

I won't go beyond that in terms of yield for 2025, but I will say, I'll start historically, 2023 structural hedge contribution, £3.4 billion, greater than £700 million jump in 2024, it brings it up to in excess of £4.1 billion. I then made the comment that we see a jump in respect to 2025 and that jump, to be clear, is in excess of the £700 million. i.e. that gross rate picks up. The change in terminology that you highlighted it's probably picking up a little bit better than we previously expected, Jonathan, yes. Then when we look at 2026, it picks up again and it picks up at a marginally faster pace, or maybe I'll put it more strongly than that, it picks up at a faster pace in 2026.

So your observation Jonathan has the nuance in respect to 2025 change probably a little bit, yeah, around the edges and we remain with the position that the 2026 pickup is meaningful.

Jonathan Pierce
Okay, sorry, in 2026, in the past you've talked about a material step up in the tailwind, you're still happy with that language? If the number next year is £800 million, we're not talking about £900 million or even a billion in 2026, it's materially ahead of that?

William Chalmers
No, Jonathan, I'll make one more comment then I'll stop. I think your expectation for 2025 is modest and I think the expectation for 2026 continues to be a material step up.

Jonathan Pierce
Okay, by the way, just to be clear, I'm not going to upgrade my numbers on the motor finance thing. But thank you for the help, that's useful.

William Chalmers
Thanks, Jonathan.

Question 11- Guy Stebbings, BNP Paribas
Afternoon, William. Thanks for all the calls this afternoon, very useful. I'll sidestep motor financing, you've probably enough questions there, I had one on Basel. Thanks for all the new guidance around the 2026 impact, I just wonder if you could give us any more around your latest thoughts on the output floor, which obviously landed a little bit later. I accept the balance sheet can evolve, so it's probably even harder to guide on, but your latest thinking there would be useful.

Then the second question was just on operating lease depreciation, I think it was about £315 million in the quarter. Can you confirm the extent to which that was impacted at all by residual car value assumptions or whether that's largely a clean figure reflective almost entirely just of activity levels? Thank you.

William Chalmers
Thanks, Guy. In respect of Basel 3.1, the position remains very much as mentioned the other day, which is to say that we see Basel 3.1 developments as being modestly positive. That's basically coming from two areas. One is a modest reduction in RWAs,

which we expect to see. And the second is a benefit from Pillar 2A add-backs. So overall, that combination is a pretty good combination and as described, we've moved from neutral to modestly positive, to now deliberately saying that it is modestly positive.

I think you probably know the ingredients for that, which is to say we've got some foundation IRB benefits off the back of reduced scalars, off the back of reduced credit conversion factors, off the back of reduced standardised LGDs, those types of things. We've also seen the removal of some of the headwinds that we previously expected and that all leads to the outcome described. In respect to the output floor, Guy, we do not expect it to bite. The reason why we do not expect it to bite is a number of reasons really. But PMAs in respect of post-model adjustments, in respect of the mortgage book number one, and what has been allowed through in the final Basel 3.1 determinations is automated valuation models within the mortgage business, number two. That combination means that we do not expect the output floor to bite.

The second of your questions, Guy, around lease depreciation is exactly what you said, that is to say £315 million in respect of Q3. In respect of car movements there or rather what's behind that charge is very much in line with what we expected at Q2. So the £315 million in Q3 is consistent with what we'd expected when we took the additional depreciation charge at the end of Q2 of about £100 million. What that means in turn is that the underlying car prices, both in respect of electric vehicles and in respect of internal combustion engines, pretty much in line with what we had expected. That in turn to put it literally was a reduction in EV prices of I think about one and a half percent and an increase in internal combustion engines of about the same. That therefore fitted with our expectations, as said.

Two points to maybe finish up on, Guy. One is as we look at that, our expectation going into the end of this year is more or less consistent, but of course it's difficult to look too far into crystal ball. So we'll see how we fare. Alongside of that, as you know, the lease depreciation charge is a critical input, or maybe output is a better way to put it, for the strength of the profitable and attractive transport business that we deliver through our ROI earnings. So that's the combination that you get.

Final point, which seems almost like an appropriate point to end on really, Guy, is that if one of the outputs or consequences of this court ruling that we saw on Friday is that supply of new vehicles becomes constrained because a lot of dealers shut down their new business, RV prices are going to go up. So maybe I'll stop there for the day.

Guy Stebbings
All right, thank you very much.

William Chalmers
Thanks, Guy. I think we're at time. I just want to say, first of all, thank you to everybody for joining, I do appreciate it. I thank you for the questions that were not on motor, of course I appreciate your interest in the business. I also understand your questioning and concerns and queries around the motor ruling, the court appeals ruling, of course. I apologise for not giving more information, but I hope you understand the reasons for that. I'll close it there just to say thanks very much indeed for everybody's time.

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. 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.