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

Thursday 29 January 2026 – 9.30am

LBG:
Charlie Nunn, Group Chief Executive
William Chalmers, Chief Financial Officer
Douglas Radcliffe, Group Investor Relations Director (Moderator)

Charlie Nunn
Good morning, everyone, and thank you for joining our 2025 full year results presentation. It's great that the move to prelims has allowed us to update you earlier than prior years. This means that our organisation can make a fast start and increase our focus on the year ahead as we enter the final stage of the strategy that we laid out in early 2022. I'm very pleased with our ongoing strategic transformation, and 2025 was another strong year for the group.

We're building significant momentum that sets us up well to deliver upgraded 2026 commitments, and stronger sustainable returns for the period. I'm very excited about the plans we're developing for our next strategic phase, and you'll hear more about this in July, alongside our half-year results. As usual, following my opening remarks, I'll hand over to William who'll run through the financials in detail. We'll then have plenty of time to take questions.

Let me begin on slide three.

SLIDE 3 – CONTINUED STRATEGIC DELIVERY; SUSTAINED STRENGTH IN FINANCIAL PERFORMANCE
I'd like to start by highlighting the following key messages. Firstly, our strategic delivery is accelerating and building momentum across the business. We're on track to meet or exceed our 2026 strategic targeted outcomes, delivering clear benefits for all stakeholders.

Secondly, our continued strategic execution underpins sustained strength in financial performance and growth in shareholder distributions. We've announced a 15% increase in the ordinary dividend alongside a share buyback of up to £1.75 billion. And finally, we're confident in our outlook. We are upgrading our guidance for 2026 and are committed to further improvements in financial performance beyond this.

Turning now to a performance overview on slide four.

SLIDE 4 – SUCCESSFULLY DELIVERING FOR ALL STAKEHOLDERS IN 2025
We delivered strong outcomes for all stakeholders in 2025. Our clear purpose of Helping Britain Prosper continues to drive attractive growth opportunities. This includes supporting our customers during a record ISA season and funding the growth ambitions of businesses that create opportunities across the UK.

These actions drive healthy franchise momentum, delivering growth across both sides of the balance sheet and market share gains in key focus areas, such as personal current accounts. Taken together, the Group is delivering sustained strength in financial performance. We returned to top line revenue growth during 2025 with increases in both NII and OOI, the latter up 9%. This supports a return on tangible equity of 14.8% and 178 basis points of capital generation, excluding the motor finance provision taken earlier in the year.

On slide five, I'll provide a brief update on our outlook for the UK economy.

SLIDE 5 – POSITIONED FOR GROWTH IN A SUPPORTIVE OPERATING ENVIRONMENT
As you've heard from me previously, we're constructive on our outlook for the UK. We continue to forecast a resilient but slower growth economy with interest rates falling gradually in 2026. In addition, the financial position of both households and businesses continues to strengthen with emerging signs of growing capacity to spend and invest.

Combined with the government's focus on regulatory reform and driving growth in key sectors, we believe the economy has the potential to move to a higher medium term growth trajectory than is forecast today. We are

well positioned against this backdrop with our strategy focused on faster growing high potential sectors, such as housing, pensions, investments, and infrastructure. We're already driving growth in these areas, leveraging our competitive advantages as the UK's only integrated financial services provider. As a result, we expect the Group to continue to grow faster than the wider economy over the coming years.

I'll now turn to highlight our strategic progress starting on slide six.

SLIDE 6 – STRATEGIC DELIVERY ACCELERATING

We continue to successfully deliver a significant transformation. Over the last four years, we have meaningfully grown the balance sheet, driven diversified revenue growth, improved our cost and capital efficiency while significantly de-risking the business, and established a digital and AI leadership position. These actions have both enhanced the franchise and delivered attractive returns to our shareholders, including total capital distributions of around £15 billion.

We're now entering the final phase of our five-year strategic plan with delivery accelerating and momentum growing. This is translating into significant financial benefits. We've generated £1.4 billion of additional revenues from strategic initiatives to date, and are today upgrading our 2026 target to circa £2 billion.

As part of this, we expect the other income contribution to be circa £0.9 billion po ahead of our original '26 guidance. At the same time, we've now realised circa £1.9 billion of gross cost savings, having met our upgraded 2024 target of £1.2 billion last year. As you'd expect, we remain committed to driving further improvements in operating leverage.

To bring this to life, I'll now spend a few minutes discussing our progress in more detail. Let me begin with our growth areas, starting with Retail and IP&I on slide seven.

SLIDE 7 – STRONG GROWTH MOMENTUM ACROSS THE GROUP

In Retail, we are the leading provider across key products in our own and third party channels. We've further strengthened our position through growth in high value areas and continue to develop our product range and capabilities to meet more customer needs. Mobile app users are now up circa 45% since 2021. In '26, we'll roll out in app AI agents for these customers with these currently in colleague beta testing.

In IP&I, we're deepening relationships as an integrated bancassurance provider, expanding our product offering through exciting partnerships. We're also transforming engagement through our Scottish Widows app with further growth expected in 2026 as we launched to the open market. Complementing our strategic delivery, we announced the acquisition of Schroders Personal Wealth in the second half of last year. It's early days, but we're really pleased with our progress and we'll rebrand the business to Lloyds Wealth in the coming months.

The acquisition is an important enabler to delivering our ambition for a market leading end-to-end wealth offering, providing us with an opportunity to deepen relationships with our mass affluent customers and workplace clients.

Let me continue on slide eight.

SLIDE 8 – STRONG GROWTH MOMENTUM ACROSS THE GROUP

Our Commercial Banking division captures both BCB and CIB businesses. In BCB, we're building the best digitally led relationship bank, building upon our strong deposit franchise and rolling out new mobile first journeys to support growth in targeted sectors.

Our BCB gross net lending increased by 15% in 2025, and we are committed to further growth this year. And in CIB, we're driving revenue diversification through growth opportunities aligned to our simple cash, debt, and risk management model. For example, FX volumes increased by over 20% in the year, supported by the launch of a market-leading algorithmic trading solution.

We were also awarded a landmark UK government banking services contract, testament to the investment we've made in our award-winning cash management and payments platform.

Finally, equity investments is a growing contributor to the Group, now representing nearly 10% of Group OOI. Lloyds Living has now grown to nearly 8,000 homes since launching in 2021, whilst LDC generated more than £600 million of exit proceeds during the year.

On slide nine, I'll now talk about the ongoing drivers of OOI more broadly.

SLIDE 9 – STRONG OOI DIVERSIFICATION ACROSS THE GROUP
Since 2021, we've delivered strong OOI growth across each of our business units, reflecting a resilient and diversified portfolio. For example, our retail business has benefited from growth in our motor franchise whilst Commercial Banking has been supported by renewed focus in our markets business.

We've also realised the benefits from improved cross-group collaboration, such as increasing protection take up rates across mortgage journeys and leveraging the full breadth of the Group to meet the ancillary needs of commercial clients. We delivered 9% growth in 2025 consistent with prior years and are confident in our outlook. Going forward, other income will also benefit from the full impact of the Lloyds Wealth acquisition, and we expect to unlock more value from this business over time.

Turning now to cost and capital efficiency on slide 10.

SLIDE 10 – ENHANCING COST AND CAPITAL EFFICIENCY
We remain focused on delivering an organisation that drives continued improvements in cost efficiency and capital intensity.

As I mentioned earlier, we've now delivered circa £1.9 billion of gross cost savings since 2021. This has been supported by the ongoing shift to mobile first and consequent refinement of our physical footprint, as well as actions to taken to reduce both the size and complexity of our legacy technology estate. These savings reinforce our confidence in delivering a cost income ratio of below 50% in 2026.

On capital efficiency, we've now delivered £24 billion of gross RWA optimization since 2021. We continue to target more than 200 basis points of capital generation in 2026, and we'll now consider excess capital distributions every half year, reflective of our increasing confidence.

I'll now move to slide 11 and focus on our enablers of people, technology, and data.

SLIDE 11 – LEVERAGING OUR ENABLERS TO ACCELERATE OUR TRANSFORMATION
As you heard in our digital and AI seminar in November, we're making strong progress against our clear strategic priorities. We've significantly enhanced our infrastructure, actively managing our legacy estate, and increasingly building on modern technology.

The ongoing investment in our people is critical to our success with circa 9,000 technology and data hires since 2021. These actions have created the platform for increased innovation. Digital first propositions such as Your Credit Score are driving clear benefits for both customers and the Group. Our strong execution to this point means we're well positioned to take advantage of future opportunities.

We're innovating and leading across new and emerging technologies, launching industry first use cases at scale in the UK. These areas will be critical to driving further enhancements to operating leverage in the future.

I was incredibly proud to see that our efforts were recognised across the industry during the year, but importantly, we're not done. I see further significant potential in the coming years.

Now turning to slide 12, where I'll provide more detail on how we're thinking about AI specifically.

SLIDE 12 – EXTENDING OUR GEN AI LEADERSHIP POSITION
In 2025, we scaled 50 gen AI use cases into full production, demonstrating significant potential and generating £50 million of in year P&L benefit. It should be stressed that this is based on a narrow definition of the latest technology with the full spectrum of digital and AI initiatives contributing around 70% of our upgraded strategic initiatives revenue target, and over 60% of the total gross cost savings realised since 2021.

This represents a strong foundation for us to accelerate our progress in '26, where we intend to increase the number of use cases with a particular focus on high value agentic opportunities. This will deliver more than £100 million of P&L benefit in 2026, capturing both revenues and costs with significant upside beyond this as use cases are scaled and mature. This is just the start of the journey, and we will of course talk more about our plans in this space as part of our strategic update in July.

I'll now turn to slide 13 and bring this together with a view on how we're building operating leverage in 2026.

SLIDE 13 – GROW, FOCUS, CHANGE: BUILDING OPERATING LEVERAGE IN 2026
We've increased our net income by £3 billion over the last four years. During this period, we have mitigated several headwinds, including those from the mortgage book and deposit churn, with these partially offset by the structural hedge earnings growth of more than £3 billion. As a result, the majority of this growth has been linked to management of the BAU business and the £1.4 billion of strategic initiatives revenue, including a significant OOI contribution.

We expect to deliver continued improvements in net income in 2026. Whilst headwinds will persist, these will be more than offset by an additional £1.5 billion of structural hedge earnings and continued growth within the core franchise. This accelerating income growth combined with flattening costs will further improve operating leverage and underpin the delivery of a cost income ratio below 50% in '26.

Let me now close on slide 14.

SLIDE 14 – WELL POSITIONED FOR 2026 AND BEYOND
So as you've heard, we are successfully executing our strategy. This is reinforcing our competitive advantages and underpinning the delivery of strong shareholder outcomes. Indeed, reflective of our momentum, we are today upgrading our return on tangible equity target to be greater than 16% for 2026.

Our confidence extends beyond this, and we're excited about sharing our updated strategic plan with you in July. We'll provide more details on the actions we'll be taking to further strengthen and grow the core franchise, address new diversified growth opportunities, and deliver continued improvements in productivity, enabled by our leadership position across new and emerging technologies. We will, of course, share more detail on our medium-term financials at that stage too. Beyond 2026, we are committed to continuing income growth, improving operating leverage, and stronger sustainable returns.

Thanks for listening. I'll now return briefly at the end, but for now I'll hand over to William to cover the financials.

William Chalmers:
Thank you, Charlie. Good morning, everybody, and thank you again for joining. As usual, I'll provide an overview of the Group's financial performance, starting on slide 16.

SLIDE 16 – SUSTAINED STRENGTH IN FINANCIAL PERFORMANCE
Lloyds Banking Group delivered sustained strength in its financial performance in 2025 in line with guidance. Statutory profit after tax was £4.8 billion, equating to a return on tangible equity of 12.9% or 14.8%, excluding the Q3 motor provision. Within this, we delivered robust net income for the full year of £18.3 billion, up 7% versus 2024. This was driven by sustained growth across NII and other income, up 6% and 9% respectively.

In the fourth quarter, net income was 2% higher versus Q3. This was driven by a four basis point increase in the net interest margin, continued balance sheet growth, and further momentum in other income. Operating costs for 2025 are £9.76 billion, up 3% year-on-year, as continued investment, business growth, and inflationary pressures were partly mitigated by further efficiency savings. The remediation charge for the full year was £968 million. £800 million of this relates to the additional motor finance charge in Q3. Credit performance meanwhile remained strong with an impairment charge of £795 million for the full year, equating to an asset quality ratio of 17 basis points.

Tangible net asset value per share ended the year at 57 pence, up 4.6 pence in 2025. Our performance for the year included capital generation of 147 basis points or 178 basis points, excluding the motor provision. This

enabled a 15% increase in the ordinary dividend and a £1.75 billion buyback while maintaining a 13.2% CET1 ratio.

Let me now turn to slide 17 to look at Q4 growth in lending and deposits.

SLIDE 17 – STRONG LENDING AND DEPOSIT GROWTH

We saw a healthy balance sheet momentum in 2025. Lending balances closed the year at £481 billion, up £22 billion or 5%. In Q4, lending balances grew by £4 billion. Within this, Retail saw growth across all of our business lines. Mortgages were up £2.1 billion, strong, but slightly slower than Q3, given higher maturities.

Highlights elsewhere in retail include credit cards, which grew £0.5 billion with continued market share gains, and European retail also up £0.5 billion in the fourth quarter. Commercial lending was £0.2 billion higher. This represents further growth in targeted areas within CIB and business as usual performance within BCB, partly offset by continued government-backed lending repayments. Turning to the liability franchise, total deposits increased by £13.8 billion or 3% in the year. Q4 was down slightly by £0.2 billion. The fourth quarter saw growth in retail deposits crossed both savings and notably PCAs with deposit churn continuing to ease as we had expected.

Commercial deposits meanwhile were down £1.5 billion in Q4, driven by actions on low margin funding, as well as by seasonal outflows in BCB. And alongside these developments, insurance, pensions, and investments saw open book net new money flows of £7.9 billion for the year, including £4.2 billion in Q4. This, of course, now includes inflows from Lloyds Wealth.

Let me turn to net interest income on slide 18.

SLIDE 18 – SUSTAINED GROWTH IN NET INTEREST INCOME

Net interest income for the year was £13.6 billion in line with our guidance. This represents an increase of 6% year-on-year with Q4 up 2% versus the prior quarter. Across both the year and Q4, strong hedge income and business volume growth were partly offset by mortgage repricing and deposit churn headwinds. Average interest earning assets of £463 billion for the full year were up 3% compared to 2024. Q4 AIEAs were just over £470 billion, up £4.8 billion. Our net interest margin increased 11 basis points to 306%. This included a Q4 margin of 310% up four basis points on Q3, driven by a significant pickup in hedge income, again, as we had expected. The non-banking NII charge in 2025 was £515 million, up £46 million or 10% year-on-year, supporting growth in OOI. For 2026, we are guiding to NII of around £14.9 billion. Within this, we expect margin expansion alongside continued healthy balance sheet growth across both Retail and Commercial.

Our guidance incorporates further hedging come uplift of circa £1.5 billion, partly offset by mortgage refinancing and easing deposit churn. Alongside, we also expect some growth in non-banking NII charge consistent with associated business growth in OOI.

Let me turn to mortgages on slide 19.

SLIDE 19 – GROWTH IN MORTGAGES

Mortgages grew by £10.8 billion or 3% in 2025 to £323 billion, supported by a growing market and a flow share of around 19%. We've continued to benefit from our strategic investment in the homes ecosystem, enabling us to build customer relationships, including in higher value direct lending and to retain more balances. It remains a competitive market. Q4 completion margins were again around 70 basis points, with a further one or two basis points of tightening during the quarter.

We continue to enhance the customer journey by integrating protection and home insurance. In 2025, we saw protection take up rates in mortgages increase by five percentage points to 20%. There is further to go.

I'll now turn to slide 20 to look at developments in consumer and commercial lending.

SLIDE 20 – SOLID PERFORMANCE IN CONSUMER AND COMMERCIAL LENDING

We saw a strong performance across our consumer portfolios in 2025 and a strengthening performance in Commercial. Combined, cards, loans, and motor grew £4.1 billion or 10% year-on-year. We are taking market

share in all three segments, driven by leveraging better data to add personalisation and by launching innovative new products such as Lloyds Ultra within credit cards.

Turning to Commercial Banking, lending was up £2.7 billion in a year or £4.1 billion excluding government-backed lending repayments. We saw encouraging progress in CIB, particularly in strategic areas such as infrastructure and project finance. This was partially offset by BCB lending, which held steady when excluding government-backed lending repayments or down £1.4 billion if they're included.

Let me turn to developments in the deposit franchise on slide 21.

SLIDE 21 – GROWING CUSTOMER DEPOSIT FRANCHISE

Our deposit franchise continues to perform well. Total deposits ended the year at £496.5 billion, up £13.8 billion or 3%. Retail deposits were up £5.5 billion or 2% in the year. Within this, current account balances grew by £1.5 billion, representing growth in our market share of balances during the period.

Retail savings meanwhile grew by £4.3 billion or 2%. This was driven by targeted participation throughout the year with a strong ISA season in the first half, followed by slower growth in H2 as we managed our portfolio. In Commercial, deposits grew strongly by £8.5 billion or 5% on the back of growth in our targeted sectors. Notably, non-interest bearing deposits stabilised and indeed grew a little in the second half. The performance and stability of our deposits are what underpinned the structural hedge, which I'll now talk to on slide 22.

SLIDE 22 – STRENGTHENING TAILWIND FROM THE STRUCTURAL HEDGE

The structural hedge is a strengthening tailwind to NII. The hedge notional stood at £244 billion at the year-end, up £2 billion over the year, supported by our high quality deposit franchise. Hedge income in 2025 was around £5.5 billion, a material step up from last year and a little above our guidance. During Q4, the weighted average life increased to about 3.75 years, built off continued strength in our deposit balances. And as previously guided, we expect a roughly £1.5 billion step up in hedge income to circa £7 billion in 2026.

We then expect hedge income to reach around £8 billion in 2027 and to continue growing to the end of the decade as yields converge with market rates and as the notional slowly builds.

Let's now turn to other income on slide 23.

SLIDE 23 – MOMENTUM IN OTHER INCOME

Other operating income performance in 2025 was once again strong. OOI was £6.1 billion in the year, up 9% versus 2024 and up 2% in Q4 versus Q3. The latter was supported, of course, by the full acquisition of Lloyds Wealth. Growth over 2025 has been broad based. Retail is up 12% with strength in motor leasing, as well as growth in cards and banking fees. Commercial was up 1% with solid growth in our markets and transaction banking businesses offset by lower loan markets activity. Insurance pensions and investments meanwhile grew by 11% driven by strong performance in general insurance and workplace as we continue to focus on our strategic choices in this area. And our equity investments business was up 15%. This was particularly driven by Lloyds living more than doubling its OOI during the year.

Operating lease depreciation was £1.45 billion in a year, up 10% versus 2024. This was driven by fleet growth, higher value vehicles, and to an extent, electric vehicle price movements, altogether essentially in line with the OOI growth generated by the vehicle leasing business.

Moving to costs on slide 24.

SLIDE 24 – CONTINUED DISCIPLINE ON COSTS

Cost discipline remains critical to the Group. Operating costs were £9.76 billion in 2025 in line with guidance, excluding the impact of the Lloyds wealth acquisition in Q4. Year-on-year cost growth of 3% is on the back of continued strategic investment, volume growth, and inflationary pressures, partly offset by further efficiencies. As Charlie highlighted earlier, since 2021, we have now delivered cumulative growth cost savings of circa £1.9 billion, thereby creating capacity for strategic investment across the business. The 2025 cost income ratio was 58.6% or 53.3% excluding remediation. And looking ahead, as you know, we remain committed to delivering a 2026 cost income ratio of less than 50%. Based on our current plan, that implies operating expenses of less than £9.9 billion. This is in line with the flattening cost trajectory that we have

previously indicated as our investment in this strategic cycle culminates. On top of that, inflation moderates and cost benefits are fully realised. Remediation for 2025 was £968 million, including the £800 million motor provision taken in Q3.

There is no update on motor in Q4. We wait to see the detail of the FCA's final proposals post their consultation in the next couple of months.

Let me turn to credit performance on slide 25.

SLIDE 25 – STRONG AND STABLE CREDIT PERFORMANCE

Credit performance remains strong, reflecting our prime customer base, prudent approach to risk, and healthy customer behaviours. Across Retail, new to arrears remain low and stable. Early warning indicators likewise are also benign. In Commercial, after some idiosyncratic cases in H1, the H2 picture has been very constructive. The 2025 impairment charge was £795 million, equating to an asset quality ratio of 17 basis points. This incorporates a small MES charge, but also benefits from model calibrations and refinements. Indeed, we consider the underlying charge to be just below 25 basis points.

The Q4 impairment charge is £177 million or 14 basis points, including a £47 million MES charge to reflect a slightly higher unemployment peak. Our stock of ECLs on the balance sheet now stands at £3.4 billion. That's around £0.4 billion in excess of our base case and leaving us well covered. Looking forward, we expect the asset quality ratio to be circa 25 basis points for 2026, similar to the underlying run-rate that we've seen during 2025.

I'll now turn briefly to our macroeconomic outlook on slide 26.

SLIDE 26 – UPDATED MACROECONOMIC OUTLOOK

The macroeconomic outlook remains resilient. In the fourth quarter, we've made only minor changes to our base case versus Q3. We now forecast GDP growth of around 1.2% in 2026. Against this backdrop, our unemployment forecast increases marginally, now peaking at 5.3% in the first half of the year. Easing inflation meanwhile allows for two 25 basis point reductions in the bank base rate during the year to 3.25%. This reflects a slightly lower rate than we previously expected, albeit we still expect a modest pickup later on in the forecast period. And in housing, we assume growth in house prices of around 2% in 2026 and '27. That is supported by the slightly lower interest rate environment.

Let me now turn to our returns and TNAV on slide 27.

SLIDE 27 – ROBUST RETURN ON TANGIBLE EQUITY

In 2025, our return on tangible equity was 12.9% or a robust 14.8% excluding the motor provision. Within this, restructuring costs were low at £46 million, including £30 million in Q4 with integration costs relating to Lloyds Wealth and Curve. The volatility and other items charged was £70 million. This includes an £87 million benefit in the final three months, incorporating a fair value uplift from the Lloyds Wealth acquisition.

Tangible net asset value per share meanwhile increased to 57 pence, up 4.6 pence or 9% in 2025. The increase was driven by profits, cash flow hedge reserve unwind, and the reduced share count from our buyback programmes offset by shareholder distributions. And looking forward, we continue to expect TNAV per share to grow materially driven by these same factors. Given the momentum across the business, as Charlie said, we are upgrading our expectation for 2026 return on tangible equity to greater than 16%.

Turning now to capital generation on slide 28.

SLIDE 28 - STRONG CAPITAL GENERATION

The Group remains highly capital generative and will become more so. In 2025, we generated capital of 147 basis points or 178 basis points, excluding the motor provision in line with our guidance. Within this, risk weighted assets closed the year at £235.5 billion, up 10.9 billion. This was driven by strong lending growth, as well as £2 billion related to the implementation of CRDIV taken in Q4. This reflects our model outcomes, which are subject to PRA approval, and therefore, of course, risk of modification. As planned, we paid down to a CET1 ratio of 13.2% at the end of 2025. And looking forward, we continue to expect 2026 capital generation to be more than 200 basis points. Beyond that, as you know, Basel 3.1 implementation is now scheduled for

the 1st of January 2027. We expect this to result in a Day 1 RWA reduction of around £6-8 billion on implementation.

Our strong capital generation supports healthy and indeed growing shareholder distributions. So let me talk to that on slide 29.

SLIDE 29 – CONTINUED GROWTH IN CAPITAL DISTRIBUTIONS
We continue to grow our shareholder distributions at an attractive pace. For 2025, the board intends to recommend a final ordinary dividend of 2.43 pence per share, taking the total dividend of 3.65 pence, up approximately 15% year-on-year. In addition, we've announced a share buyback of up to £1.75 billion, and together this represents a total capital return of up to £3.9 billion, up 8% on 2024, and equivalent to around 6% of our current market capitalization. Dividends have grown consistently over our strategic plan, with the 2025 dividend now up more than 80% versus '21.

They remain at a payout ratio that allows for continued strong growth. Over the same period, our consecutive buybacks have also reduced share count by more than 17%. We remain committed to paying down to our target CET1 ratio of around 13% by the end of 2026. In addition, given our confidence in growing capital generation, we will now review excess capital distributions in addition to ordinary dividends every half year going forward.

Let me wrap up on slide 30.

SLIDE 30 – SUSTAINED STRENGTH IN PERFORMANCE AND UPGRADED GUIDANCE
To summarise, in 2025, the Group's financial performance showed sustained strength. Strategic execution and business momentum delivered continued balance sheet and income growth alongside cost discipline and asset quality, allowing for growth in shareholder distributions. As we look ahead to 2026 and a culmination of our current strategic plan, we are confident in delivering on the financial guidance you can see set out in this slide. Beyond 2026, we are committed to continuing income growth, improving operating leverage, and stronger sustainable returns.

That concludes my comments for this morning. Thank you for listening. I will now hand back to Charlie for closing remarks.

Charlie Nunn:

SLIDE 32 – CONTINUED STRATEGIC DELIVERY; SUSTAINED STRENGTH IN FINANCIAL PERFORMANCE
Thank you, William. So as you can see, our strategic delivery is accelerating and we're building significant momentum. We're creating a stronger, more diversified, more efficient, and more capital generative Group. This in turn supports increasing shareholder distributions. We have today upgraded our return on tangible equity guidance for 2026 to be greater than 16%, and are confident in the outlook beyond this. I look forward to providing much more detail on the next stage of our strategy and the associated medium-term financial plan in July. Thank you for listening this morning. We're now very happy to take your questions and I'll hand over to Douglas who will manage the Q&A. Douglas.

QUESTION AND ANSWERS SESSION

Douglas Radcliffe:
Thank you, Charlie. We will, as normal, be taking written questions online, as well as questions in the room. For those in the room, as usual, if you could, as normal, just raise your hand and a microphone will be brought to you. Please try and restrict yourself to two questions. Okay. Why don't we start with Guy?

Question 1: Guy Stebbings, BNP Paribas.
Morning. Thank you. It's Guy Stebbings from BNP Paribas. The first question was on deposits. I think it's probably fair to say over the past year, if not longer, deposit flow has been better than expected, but Q4 was a touch softer mainly on the commercial side. I don't know if you could talk to anymore in terms of whether that's just seasonality, and then your expectations into 2026 in terms of pace of deposit growth, whether you're assuming static mix effects and anything you might be able to elaborate in terms of deposit pass through assumptions.

And then the second question was on costs. Very reassuring performance in '25. The guidance for '26 in terms of limited absolute cost growth is encouraging. Just wondering how much we can sort of read into that, your ability to continue to run the business with limited absolute cost growth, or is it more a function of the fact that it was a plan that was always expected that in 2026 you would see less growth in that particular year. Obviously, I'm thinking into beyond 26, appreciating you're not going to be too specific. Thank you.

Douglas Radcliffe:
Excellent. Thanks, Guy. I think both deposits and costs are probably questions for yourself, William.

William Chalmers:
Thanks for the questions, Guy. In relation to deposits, the deposit performance, as you say, over recent years has been really very strong, and that's obviously what supported the structural hedge amongst other things within the balance sheet. So a good franchise with some good financial effects. When we look at 2025, we saw deposit growth of almost £14 billion, £13.8 billion over the course of the year, about 3%. So a really pretty good deposit performance during the year. Within that, we saw Retail up £5.5 billion. We saw Commercial Banking up £8.5 billion. So good to see deposit growth in the various different parts of the business, including within the subcomponents of each of those divisions, Retail and Commercial, some pretty healthy deposit forms in respect to different components. So that's the way in which we see the year. Now, within any given quarter, of course, we are going to be managing the deposit base as appropriate, based upon making sure that we make the most of the franchise, offering, of course, good customer value and respecting the funding needs of the business.

And so on a quarterly basis, you're going to see variations in deposit performance, which reflect each of those imperatives, but over the year at least, you should expect to see healthy deposit performance as you did in '25. I think in respect of your particular point on Commercial, the two points that I would make are seasonal outflows. We see those every quarter or every fourth quarter, I should say, in respect of certain sub-sectors, education was one over the course of this quarter, indeed a bit of a mixed effect there too. Alongside also a bit of management in terms of very low margin deposits, which as you can imagine, occasionally collect themselves within the Commercial Banking part of the business. So we'll manage that in the interest, as I say, of customer value of the funding position of the bank and of making sure that we make the most of the franchise.

The other point I would make in respect of quarter four, Guy, which was good to see, is stability in NIBCA across both the Retail and the Commercial businesses. And within that, within retail businesses, PCA balances up £1 billion, which as you know, is a crucial customer relationship product for us, and therefore we pay very close attention to it. So it's good to see that being so strong, in the course of the fourth quarter.

You asked about 2026. I think overall, when we look at '26, we're expecting to see deposit performance not too dissimilar really to what we saw during the course of '25 in terms of overall volume. There may be some gives and takes in that in terms of the different divisions. We'll obviously manage the business as appropriate. What I would expect to see within that overall deposit book is a slowing down in churn, just as we have seen in the course of '25, including in the latter part of '25, and that is simply off the back of bank base rates, coming down to lower levels and therefore deposit churn easing off the back of it. At the same time, we'll also see the effect of two bank base rates. That's more of a financial point than a volume point, if you like, but worth bearing in mind. So good performance in '25, we do expect to see continued good performance in '26 of roughly speaking, the same type of proportions.

In respect of costs, cost discipline, as I mentioned in my comments, absolutely critical to the Group. Cost discipline remains an absolute imperative. When we see our cost performance during the course of 2025, first of all, £9.76 billion in total, that's about a 3% cost growth over '24. Within that, if you exclude severance, which as you know, bumped up a little in '25, then it's 2.4%. And actually, if you exclude severance plus Lloyds Wealth in the fourth quarter, it's 2.3%. So stripping out those two elements, it's a 2.3% underlying cost rise in '25 versus '24.

When we look forward, you'll see from our numbers that we're looking at a cost base which is expected to be less than £9.9 billion. That is in total about a 1% rise, '26 over '25, and that represents a number of things. It is worth saying actually before going into them, that obviously includes the added costs of Lloyds Wealth, which I think we mentioned at Q3 around £120 million, and then also the added costs of the Curve acquisition as

well, which we haven't put a number on, but that obviously is an incremental cost base that we have to absorb. And so the cost increase, if I can call it that, to sub £9.9 billion in '26, takes into account of those additional headwinds and effectively absorbs them in our ongoing cost management.

Now, to your point, what is leading to that cost outcome in '26? A number of things, really. We're obviously being helped by inflation coming in a little. That affects things like pay settlements and obviously affects third party contracts and the like. So that's all helpful, declining inflation. Alongside of that, that bump in severance that we saw in '25 irons itself out a little bit, so we're seeing a little bit of a benefit from that. But then more importantly, we are seeing the landing of our strategic initiatives, or at least those strategic initiatives that are focused on cost benefits. Added to that, the full year benefit of the cost initiatives on a BAU basis that we took in '25. So those two factors, the landing and benefit of strategic initiatives, number one, and the full year benefit of '25 initiatives in '26, they're pretty helpful too.

And then I mentioned earlier on, as we come into the final year of our strategic plan, the investment plans, if you like, the investment expenditures are slowing off a little bit. That gives us a little bit of benefit as the cash investment slows. It's about £100 million. Put that in your considerations, but that is the natural culmination of the strategic initiatives and the investments that we've made both from the revenue customer proposition side, as well as the infrastructure of the business over the course of the '22 through '26 period.

You asked about looking forward. You'll have seen in both Charlie's and my presentation that we talked about our commitments beyond 26, and we talked about them in the context of income growth, number one. We talked about them in the context of increased improving operating leverage, number two, and we talked about them in the context of improving returns, number three.

The second of those three points, improved operating leverage effectively means a commitment to reducing the cost income ratio. When we look forward, we are going to continue to invest in the business. You would expect us to, because it's absolutely imperative to maintain the primacy of the franchise and the strength of the franchise today, and that will require investment in the type of sectoral evolution that we're seeing, but you have that all done being committed to within the context of a improving operating leverage, declining cost income ratio environment. We'll obviously talk more about specifically what that means when we get to the summer of this year, but we felt those commitments were important to make so you have some sense of direction from us in advance of that.

Guy Stebbings:
Thank you.

Question 2: Benjamin Toms, RBC
Morning. It's Ben Toms from RBC. The first question's on NII. I mean, you've guided for 2026 of £14.9 billion. Just to clarify, should we expect NII and NIM progression every quarter as we go through the year, and is there any lumpiness in the structural hedge maturities that are worth calling out?

And then secondly, on capital, you've talked about reviewing your capital distribution now on a half-yearly basis going forward. How should we think about that for the half one of 2026? Will you come down to that 13% by the half year, or should we think about that as a straight line, so halfway there by the time we get to the half year results? Thank you.

Douglas Radcliffe:
Thanks, Ben. Again, I suspect that those are very much questions for William.

William Chalmers:
Thanks, Ben, for both of those questions, and I'll answer them in turn. In respect of NII, you asked specifically about the shape of NII over the course of '26, so I'll come back to that, but I just wanted to make a couple of comments in respect of the overall guidance of 14.9 to put that in context, if you like. When we look at NII performance over the course of '25, we're obviously pleased with the outcome off the back of margin expansion and indeed AIEA growth, including that £22 billion of incremental lending that we did during the year up 5%. That led to NII growth of 6% during '25. Now, we put forward guidance which shows a further 9% increase in 2026, so a pretty solid growth expectation, for 2026 going forward. And again, that's built off

of similar things. That is to say net interest margin expansion, probably a step more in '26 versus what we saw in '25 actually, plus of course, AIEA growth expectations.

We do expect net interest income to continue to grow in the years beyond that, and that is indeed partly what's behind the first of the three comments that both Charlie and I made about expectations after '26. When we look at that, we obviously calibrate the guidance in the context of what we are highly confident in delivering, and that's where £14.9 billion expectation comes from. Within that, there are headwinds and tailwinds in the margin. Perhaps we'll come back to that in the course of this discussion, alongside AIEA growth expectations as said.

And we've, of course, absorbed a further bank base rate reduction in the course of '26 in calibrating the guidance that we've come up with. In respect of the pattern during '26, I would say, should you expect NII growth or should you expect NII net interest margin expansion in every quarter over the course of the year? I won't guide too precisely to it, but broadly speaking, yes, you should do. That is going to accelerate and slow down from one quarter to the other for sure, but over the year, you should expect a steady growth in NII off the back of margin expansion quarter on quarter.

Some quarters, however, will be faster than others. And behind that, of course, is to your point, a little bit, the kind of the ebbs and the flows, more the flows clearly of the structural hedge, but flows at different paces, I guess, of the structural hedge. So that's partly what will be behind that net interest margin expansion. The other point I would make is if you're looking at the quarters, just bear in mind that quarter one has a lesser day count versus quarter four, so you need to take that into account in the context of NII expectations for that quarter in particular, simply because we're coming up to it.

In relation to the buyback, as you say, we've moved to a buyback of two times. Why have we done that? Over the last couple of years, at least, we felt that one times per year buyback was appropriate in the context of giving you clear guidance as to what we expected, and in the context or rather appropriate as we reduced the capital ratio of the business down to ultimately 13% at the end of this year. As Charlie said in his comments, as we increase our confidence in the capital generation of the business going forward, and as the regulatory picture gets clearer, we feel it is now appropriate to move to two times per year, and indeed that gets us to, on average, being closer to our capital target of 13% over the course of the year. So there's good reasons behind it, and it gets us to an outcome that is more consistent with our overall 13% capital target.

You asked about timing and how we'll look at it at the half year. We'll obviously let the board deal with the buyback as appropriate at the half year. We will take into account clearly the position of the existing buyback and where we are at that point. The one point that I would make in that context is that in the past, as you know, we have seen buybacks end in August. We've also seen buybacks end in December. This year, we have a buyback that is a little higher than it was last year. We obviously had a much bigger or a much larger market capitalisation of the overall company, and therefore one would expect the buyback to, if it's constrained by things like average daily traded volume, which these things typically are, to proceed at perhaps a slightly faster clip than it might've done previously.

Overall, we will look at the buyback consideration at the half year. We will decide on what the quantum of the buyback should be at that point in time, taking into account the available capital stock of the company, taking into account the business needs on a go forward basis, and of course ensuring that we preserve the position of the company. You asked specifically about how close we get to 13% at that point. Our objective right now is that we will get to 13% at the end of 2026. That's been our objective for a while now, and we maintain that position as we stand today. We'll take a look at it again at the half year.

Douglas Radcliffe:
Excellent. Thank you. Why don't we take the next question from Jason in the middle row here.

Questions 3: Jason Napier, UBS
Thank you, Jason Napier from UBS. Perhaps one question for William and one for Charlie. William, just coming back to the earlier question on deposits, I think you did a great job of handling the volume side of things. Commensurate with a bigger market cap that almost everyone now has, there's a lot of investor sensitivity around commercial intensity and what's happening to competition. So particularly on the deposit side, I wonder if you could perhaps add a little colour on that.

And then Charlie, the firm's done an admirable job of dealing with a really volatile macro environment over the five-year period of the plan. One of them is the emergence of GenAI as a thing that we all talk ad nauseum about now. What do you think's happened to the efficient frontier of cost income ratios for banks over the period of the plan? Where do you think a modern Lloyds, a fully modernised Lloyds, I should say, ought to operate from that perspective. Thank you.

Douglas Radcliffe:
Thank you, Jason. William, I think obviously deposits is for yourself and then Charlie, the AI side.

William Chalmers:
Thanks for the question, Jason. I think you have to judge us by our results in some respects at least. So the way in which we respond to the competitive environment is hopefully by delivering sustained franchise growth. And once again, you've seen that in 2026 with £13.8 billion growth in deposits. I mentioned earlier on that we expect continued deposit growth during the course of 2026 and indeed beyond. So I think that's probably the base answer. What would I say in terms of the competitive environment? Yes, to a degree, at least it is increasing in its competitive intensity. I do think there are various different reasons for that. Some of them will be present for a while, either more systemic, some of them maybe are a little more transitory. We've seen, for example, quite a lot of competition from some of the FinTech challengers, and there's much talk about that and the market share that they may be gaining or accessing.

How do we respond to that? We respond in the context clearly of enhancing the capabilities of our offering. That obviously includes things like app capabilities. Alongside of that, propositional improvements, which we've seen a consistent flow of over the course of the last few years. Alongside of that, very competitive pricing in the markets that we want to be when we want to be in them. So we won't necessarily, if you like, be there all the time in every single case, we'll be there where we need to be. And in the context, obviously, of the systemic security that Lloyds offers, the branch offer that it offers, the brand and marketing and so forth. So overall, we see our competitive position versus some of those other factors within the deposit market as gradually strengthening, as said, endorsed by the deposit performance that we've seen across the franchise. One good indicator of that, going back a little to the earlier question, is the PCA performance, which for us, as said is the absolute critical relationship product.

Balance is up £1 billion in the course of quarter four, balance is up £1.5 billion during the course of '25 as a whole, and that is in the context of continuing market share gains from a balance perspective, which is good to see. So Jason, the competition is relevant. It's clearly something that we take very seriously. I do think the results that we show up against that competition withstand scrutiny.

Charlie Nunn:
I might just add one thing to that. I don't want to jump on all of these questions because it's a really important question, obviously. We made the point around market share gains in personal current accounts. We've also done that in business current accounts over the life of this cycle, and those are two very important areas for any organisation, but especially given our strategy. When you get to savings and investments, we perform very well on instant access money, which is money for liquidity purposes. And last year we had a very strong ISA tax season, but as you get into time deposits, obviously the margin for shareholders will depend on the pricing in the competitive context. They don't support directly the structural hedge. So we typically compete there from a customer proposition and a broader relationship perspective, but we won't chase market share for the sake of chasing market share where it's not relevant to our customers and where it's not relevant to our shareholders.

So we really look at quite a differentiated view of the deposit base. And you're right, it's a competitive market, that's good for customers. Last year we traded very well and offered great offers. Let's see where the market is this year. The really core part of this is really competing where we have the stable funding and stable deposit base that shows trust. Just on your second question, wow, we could spend the whole morning. Thank you for asking me a question, Jason. And look, I'm not going to give you the complete answer because I think it's partly one of the discussions we'll have in July. I think a couple of thoughts that are very helpful. The first thing is, we've said a few times now, and we did it in the seminar back in November, that about 60% of the £1.9 billion gross cost saves we've delivered over the last few years has been linked to digital and AI.

Put generative AI aside for a second. And so this ongoing trend around driving very significant lift in efficiency and operating efficiency for financial services, we've been doing that for our whole careers, but it's a significant opportunity at the moment and it has been what's driving a significant amount of our benefits in the last three or four years. And when we look at agentic AI, we think that will enable us to continue that trend of efficiency. So that's the first thought. Second is when you look forward, and we're really quite excited this year, we just announced today that we see for just the generative AI use cases we're deploying this year on top of the ones we deployed last year, the 50 use cases that generated £50 million of P&L. We see greater than £100 million of benefit in year. And those benefits will be both revenues and costs.

And of course, when you look at our industry, what's more differentiating is our ability to differentiate our services and build broader relationships on the revenue line than driving efficiency. We will do both, but efficiency, if we can do it, other people can do it. What's really exciting for us is some of the differentiation that we're building in through the services we're doing this year. We're launching a couple of examples later this year, which are currently in testing with our colleagues. One around providing investment advice to the whole market, so you don't have to have a certain size of investments to get that investment advice. Chira's team's leading that. I can see him at the back, which is going to be really interesting. It won't drive massive revenue short-term, but it will be very sustainable long term. And then the second one is around really changing how customers have access to their everyday banking and providing a conversational interface to get more out of their everyday spending.

And we think that's going to be very, very important for the whole everyday banking personal current account business. Jas is leading that and he's sat here as well. So we really think there's as much on the revenue as there is efficiency. And then going forward, I won't give the answer on how we see the industry playing out, but that does underpin the confidence that William said we've given you that we see the cost income ratio continuing to progress positively over the next phase. We'll come back into this. It is also really important to think about, as you know, the mix of businesses. So we happen to have a mix of businesses with a very large Retail business, a significant Insurance and Wealth business, which as you know, is very good from a returns perspective, but typically historically has been a higher cost income ratio and then a smaller Commercial bank.

And I think when you look at Lloyds and other institutions, obviously the mix of businesses will affect how cost income ratios progress. We're very ambitious on this and we are very confident we have the right talent and we're starting at a fast pace, which is great. So let's see how it develops. We'll come and give more guidance back in July.

Douglas Radcliffe:
Excellent. Let's stay on the front row and let's go to Ben first and then we'll go along.

Question 4: Ben Caven-Roberts, Goldman Sachs
Thank you very much, Ben Caven-Roberts from Goldman Sachs. Just wanted to follow up on the lending. So you mentioned within the NII guide, very strong franchise volume growth in 2026. Could you elaborate a bit on the split between Retail and Commercial and how you see the trends evolving there? Thank you.

William Chalmers:
Thanks, Ben, for the question. Loans and advances £481 billion, as you know. That is a pretty good outcome in respect to '25. So I mentioned earlier on £22 billion growth in lending for the year, which is up 5%. And if you think about where GDP is, it's quite a markup on GDP. So we're pleased with that. I think it is more balanced towards the Retail part of the business over the course of the year. I talked about £10.8 billion in mortgages, for example. We also saw sustained growth across cards, loans, motor and so forth. So a bit of a tilt in that direction. Within the Commercial bank, within '25, decent growth within, as I mentioned in my comments, targeted sectors within CIB, but within BCB, you effectively had a swap out of government repayments off the back of bounce back loans for a swap in of private sector lending, and those two roughly equalled each other out.

So that's the pattern for '25. Again, some strong franchise growth in both areas, particularly in Retail. When we look forward, first and foremost, we'll obviously be conditioned by the markets in which we operate. We have taken some relatively prudent assumptions in terms of the expected expansion of those markets. The mortgage market, for example, we are suggesting the net lending will be healthy in '26, but maybe a touch down versus what it was in '25. That's a market comment as opposed to a Lloyds Banking Group comment. So

we've deliberately taken some relatively prudent assumptions in that space, which means that our retail lending, we still expect to show healthy AIEA growth to be clear. Well, will it expand by the same order of magnitude as it did in '25 in Retail? Let's see. I think our market assumptions are a little bit more cautious than that, and therefore I would expect to see a bit of that reflected in our overall growth within retail banking balances.

Growth, but maybe not quite at the same pace as we saw during '25. However, within Commercial Banking, I think we see it as a bit of a different picture. That is to say we see sustained growth across the Commercial bank. And maybe just to comment on that briefly. First of all, within CIB, strategic initiatives, the focus on certain areas and so forth, I would expect CIB growth to continue to be healthy just really as it has been during the course of '25, actually. But within BCB, we're now at the point where there's only £1.4 billion or so of bounce back loan balances in place. We are also at the point where we are investing heavily in the proposition there, whether that is sectoral expertise, whether it's relationship managers, whether it's customer journeys and the like, and therefore the expectation is that the pace of organic growth within BCB should pick up a little bit.

Meanwhile, because the bounce back loan stock is now only at £1.4 billion, the headwind that is presented by those repayments should ebb a little bit. The net of that is probably more constructive growth within BCB, which in turn, I think, Ben, when you look at the overall balance therefore for '26, you should expect to see healthy loans and advances growth within Lloyds Banking Group, for sure. It may be a percentage point or two, well, a percentage point, let's say, inside of what we saw in '25, and the balance might be slightly shifting. That is to say slightly stronger within Commercial, slightly weaker within Retail. But overall, as said, healthy loans and advances growth with those comments attached.

Douglas Radcliffe:
Thank you. And very impressive, Ben, just one question. Perlie.

Question 5: Perlie Mong, BofA
Sorry to disappoint, I have two. So it's Perlie Mong from Bank of America. Can I ask about mortgage margin competition? So is completion margins still about 70 basis point, and you mentioned that there's maybe one or two basis point of tightening in the quarter. I think we've all been hearing about the COVID era loans maturing in half one this year. So how are you seeing competition at the front end of the book in January so far? And especially in the context of the budget perhaps having less change to cash ISA than may have expected. So does that change the funding profile of some of your competitors, especially building societies? And then also the mix in the book as well, because this year looks like it will have a lot of remortgages coming through. So does that change in remortgages versus first time buyers change the margin picture as well?

So that's number one on mortgage margins and number two on NII and non-NII split. So the £14.9 billion is perhaps a touch below consensus, but obviously the cost income ratio guidance does imply an even bigger step up in non-interest income growth versus expectations. So is that a conscious decision to put more resources behind non-interest income growth and which area within a non-interest income growth are you feeling especially positive about?

Douglas Radcliffe:
Thank you, Perlie. I think both of those questions will originally come to yourself, William.

William Chalmers:
Should I kick off on mortgage margins briefly and then come over to you before getting to the second of the two questions? The mortgage market really is said Perlie. It has been competitive in '25. It continues to be competitive in '26. I mean, that's the simplest way to look at it. We've talked about 70 basis points, completion margins within mortgages. That's actually been the pattern pretty much quarter-on-quarter. I mean, you'll remember quarter two, I think I said the same thing. Quarter three, I said the same thing, and here we are at quarter four saying the same thing again. So 70 basis points throughout the year, but having said that, underneath that headline, you're probably seeing a chip of one basis point or so away in each and every quarter. So that's a reflection of the competitive mortgage market that we are seeing.

What is going on behind that? I think what is going on behind that is that everybody is enjoying the benefits of widening benefits from structural hedge, widening liability margins. And off the back of that, we and

everybody else is looking at the margin as a whole. And in that context, we're pleased to see obviously the margin expanding by 11 basis points in '25. I mentioned earlier on that we expect to see a more material increase in net interest margins in '26. So I think everybody is looking at it in a fairly holistic way, and therefore there's a bit of a trade-off going on between being more competitive in the mortgage market, which is being allowed for by the overall widening of our margin and the rest of the sector as a whole. I think that's what's going on. When we look at '26 in response to your question about kind of blocks of activity, yes, we have a mortgage headwind during the course of '26.

We've been talking about it, I hope, very consistently over the course of recent years. So that's nothing new for us. We've been, I hope, telling you that for some years now. It is first and foremost because of the effect, as you say, of pretty thick five year margins that were written back in the, I guess now the COVID era. That mortgage headwind is slightly compounded by the fact that completion margins, as just said, have come in a little bit versus our expectations. To be clear, we do not expect a heroic recovery in completion margins. We've taken a pretty prudent view on what those completion margins will look like over the course of this year. And of course, in doing so, we therefore build up the mortgage headwind a little bit in respect to '26. Now, let's see what actually plays out. We might be proven wrong.

Completion margins may be a little bit more steady than they are, but we've taken a relatively conservative view of how we expect competitive conditions to play out during the course of the year. And that combined with the '26 maturities means that the mortgage headwind is certainly there for '26. Again, consistent, I think, with what we've highlighted before that may be stretched a little bit beyond because of that completion margin pressure that I just highlighted. Now, strategically, and Charlie may want to talk more about this, therefore, it is particularly important to us that we develop the franchise proposition, the customer relationship around the mortgage product. The mortgage product stands on its own two feet and it meets its cost of equity. So we're perfectly happy with that on a fully loaded basis. It actually is a very attractive return on equity on a marginal basis. So the product itself stands on its own two feet from a financial perspective, but it is so much the better if we can develop the relationship with the customer off the back of it.

And I mentioned in my comments earlier on that the protection take up rate is now at 20%. That's gone up dramatically over the course of the time since I've been here. And indeed, as I mentioned earlier on, we think there is much further to go in that. That is only one example, but it's quite an important example of how we seek to build a customer relationship in the context of the mortgage product. You'll have noticed other examples are in the context of our PCA mortgage combination offering that we give to people. Likewise, GI is another string to the bow in terms of building that relationship. So that's what we do to offset some of the pressure that we see within the overall financial point from the mortgage product. And then as said, we look at the margin in its totality, which is undergoing a very benign and positive transformation right now, as you know.

I'll just comment very briefly on the cash ISA and hand over to Charlie for the question as a whole. I think overall the pressure that may be induced by cash ISA changes may be felt by others a little bit more than us. That may be because of their deposit funding structure. It may be because of the overall way in which they maintain customer relationships. At the moment at least, the loan deposit ratio within the business is 97%. It is a very successfully deposit funded business with a lot of room to grow lending in. From a cash ISA strategic point of view, being obviously the combined Lloyds Banking Group, Scottish Widows business that we are, we see actually the cash ISA movement as at least as much of an opportunity to build relationships in a savings space, as we do see it as source of concern in the deposit space. So from our perspective, we're fine with it.

Charlie Nunn:
That's a pretty full answer. Look, maybe just take a step back. Obviously when we started this strategic cycle, the mortgage business was hugely important, but we've been losing market share for a long period of time and we kind of set out that we wanted to prove that we could trade at 18-20% market share and do it profitably for our shareholders. And that's what we've done. And last year was a really good year in that context. And I think just overall, we'll continue to have that mindset. This is about being relevant to our customers, bringing leading products to market, but we're not going to chase margins in any one month or quarter. The market has started competitively in January, but January doesn't make a quarter and a quarter doesn't make a year. So let us trade through that. So that's the first thought.

The second one, which is William talked about what we can bring alongside our mortgage products to enhance returns from an overall relationship. The other thing that we've been very focused on and we've done successfully that's helped us to change what you'll see as the mortgage margin dynamic is think about how we provide our existing mortgage customers or current account customers access to a remortgage or a product transfer and how we use our own direct channel. And those are great when we can do that because we don't pay a proc fee or procurement fee to a broker and we can share some of the value with our customers and we can target our customers in a way that really brings the best of our products to market. So we've increased our share of direct mortgages to 26% of the market last year and we think that's a really important point of differentiation. It enables us to compete differently from our competitors.

And we've invested heavily. I'm being watched by the leader that's done a lot of this. I'm nervous now what I'm saying, Jas. We've invested heavily in our digital capabilities around our home hub, around remortgage journeys, and that really helps customers get a simpler, quicker, and good value product, and that helps us. And we've invested heavily in our relationship with our mortgage brokers, and we typically see our completion rates being above the application rates because we provide a very, very good process and journey. And again, that helps us compete in the market. So look, it's a very different market from first time buyers through buy- to-let, through prime mortgages. One other fact, which I've talked about before, we did increase our share of mass affluent mortgages from 9% to over 20%. And again, we know the value of those relationships and the broader relationship in that context.

Just on NII, OOI, maybe we'll do it the other way around. I'll say the strategic and then you can add in some of the value because it's a really important question. Look, when we started this strategic cycle, we laid out very clearly that we wanted to grow more diversified income distribution across the Group and get more bias towards other operating income, recognising we were still looking to grow NII ambitiously as well, but it's been always part of our strategy to do that. And we've now got four years consistently of growing at 9% CAGR on other operating income or more actually in '22, because we bounced off a low start in '21, we grew more than that. But I think the real quality of the franchise, the other operating income businesses is starting to show differentiation as we come through this. So we always thought strategically the right thing for our shareholders was to drive that bias towards OOI.

The NII, William's gone through, we'll always have a certain conservatism around how we think about NII, but that's our right ambition. So we like the idea of OOI growing faster and giving more differentiation and diversification around our revenues. You asked around which businesses, and maybe I'll pause, I'll do that relatively quickly, and I think we'll do more of this as we look forward in the July strategy. But as William laid out, and hopefully you've seen this additional disclosure today around our equity investments business and Lloyds Living, we always had a strategy to build quite a diversified set of businesses so that in any one quarter or year, one business may not have the best year. Actually, William explained why because of a very strong year last year and then actually UK Sterling DCM activity was suppressed this year. Our corporate OOI grew slower last year, but the whole point is we know that with the diversification and breadth of businesses, we'll be able to drive strong growth across those businesses over the next few years.

And what you saw this year, and you should expect again next year is strong growth in Retail, strong growth in our Insurance and Wealth business, and Lloyds Wealth specifically will help that again next year, and strong growth in Commercial and in our equity businesses. The growth rates might vary quarter-on-quarter, but the pillars of that growth are well established now and they're moving at pace. So we think that's a really important part of the strategy. William, do you want to flesh out any of the detail on top of that all?

William Chalmers:
Thank you, Charlie. I think I'll probably made two points. One is, of course, to flesh out the detail, but I'll come back to that in just a second. The second is, I really do not think it is an either/or between NII and OOI. To be clear, we would expect to see meaningful growth in both. So when we look at NII, for example, as you know, we're looking at 9% growth in 2026. We are also looking at sustained NII growth in a period thereafter and the period beyond, fuelled by the structural hedge as the current headwinds of particularly deposit churn in '26, but also deposit churn and mortgage headwind in '27 ebb away. So you should see 9% growth in '26 and then sustained growth in a period beyond that. Now, just focusing briefly on '26, as I mentioned earlier on, and Charlie just highlighted it, we calibrate guidance to be highly confident of hitting it.

That of course means a degree of conservatism in the way in which we look at things, including things like market rates and so forth. The headwinds and tailwinds in respect to the margin, they're familiar ones, the ones that I've just highlighted, for example, AIEA growth, as I mentioned in conjunction with the lending question just a second ago, is built off of relatively conservative market assumptions. Let's see how they fare over the course of the year. And then of course, as said, we've absorbed a macro, a further macro change of now two bank base rate reductions versus previously one. That all means that we're highly confident again in '26. It also means that we're highly confident of continued growth in a period thereafter. So Perlie, I don't think this is either NII or OOI subject to the resourcing decisions or capital allocation of the business. I think it's very much both.

In terms of the detail, the one or two points I might just add, just kind of fill in on that in that respect, Retail up 12% during the year, 2025, that is driven by two or three factors in particular, transport, banking fees of PCA, cards likewise. So that's a kind of, I suppose, a multipronged engine. Likewise, Commercial a bit slower for the reasons that Charlie just mentioned, I would expect that growth rate to pick up in that business during the course of '26, not least because those '24 one-off effects that Charlie just highlighted drop out, as well as what we've seen so far, at least a decent start to 2026. Let's see if that continues. And then Insurance, Pensions and Investments, the same drivers as '25, which is to say GI drivers, longstanding, the unwind of the CSM being part of that, workplace pensions, continuing to build the business.

But again, as Charlie mentioned, the embedding of Lloyds Wealth, as it will be called. I think we talked at Q4 about that Lloyds Wealth income stream being an incremental circa £175 million of income in the course of 2026 versus what it delivered during the course of 2025. So meaningful, if you like, addition from that space. And then Lloyds Living, or rather LBGI more generally, we've got a combined effect of LDC, of Housing Growth Partnership of BGF, but also Lloyds Living within that context. I mentioned Lloyds Living doubled its OOI during the course of '25. You add together all of those LBGI businesses and they're up 15% versus where they were the year before. You should expect meaningful growth in the OOI contribution of those businesses going forward. That hopefully just kind of fills in a bit of the blanks. But again, we would expect to see, expect to deliver sustained growth in NII along the lines just mentioned, OOI growth for '26 ahead of what we saw in '25.

Douglas Radcliffe:
Excellent. I'm going to take a couple of questions online, then I'll come back to the audience here. Firstly, this question from Aman at Barclays.

Question 6: Aman Rakkar, Barclays.
You are set to generate increasingly significant amounts of surplus capital from here. What should the market's base case expectation be for what you are likely to do with this surplus, buybacks, specials, or potentially M&A?

William Chalmers:
Shall I kick off on that? And then Charlie may want to add. Thank you, Aman, first of all, for the question. I think the start point and perhaps the end point for this question is that we are in the business of maximising the long-term value of the Group. That is really what the management team is focused on and indeed the board. Looking forward, as it has done in the past, that is going to encompass business growth. Balance sheet growth is an example of that, £22 billion lending and advances growth last year, for example. Alongside, clearly organic investment, we've invested, as you know, £3 billion over the course of three years in this strategic cycle, £4 billion over the course of five years. In fact, a touch above that, because I think we talked about at Q3.

That's in pursuit of improving customer propositions, making sure the franchise really progresses. At the same time, building the operational resilience of the bank as examples of other expenditures, if you like, of that cash investment. It also, from time to time, will include looking at least at M&A, but ultimately it is all underpinned by capital distributions, and that is, as I said before, about maximising the long-term capital distributions that we're able to give to shareholders. Now, just a word on M&A. The M&A bar is pretty high. There's a couple of points to make there. One is it clearly has to be strategically coherent. I guess that goes without saying, but you've seen in the context of the last couple of years or so, a couple of M&A pieces that we've undertaken, one being Tusker, one being Embark. Both of those two have enhanced capabilities of the business at a rate that was faster, at a risk that was lower, and at a price that was cheaper than the organic alternative.

When I first came in, we also did a scale add on, which is the Tesco mortgage book, but it's that type of strategic complementarity that we're looking for, either capability enhancement or alternatively scale add-ons. And then as I said, it has to be put through the filter of, is it going to get us to the target zone, strategic target zone that is, in a way that is faster than the organic alternative, in a way that is at least lower risk than the organic alternative, and in a way that is ideally cheaper than the organic alternative.

So we're looking for speed, low-risk, and value in the context of the M&A that we would choose to undertake or choose to look at. Only when we meet that high bar would we choose to divert any money from what would otherwise be distributions to the shareholders to M&A.

You've seen the type of things that we've done before. I think the concern is, does it tick all of those boxes? That's the way that we'll look at it. But as said, any capital allocation, whether it's about balance sheet expansion, whether it's about organic investment in the business, whether it's about M&A, whether it's about capital distributions, is about maximising the long-term value generation and indeed ultimately capital distribution in the business over time.

Douglas Radcliffe:
Excellent. Okay. The second question online is from Rob Noble at Deutsche.

Question 7: Rob Noble, Deutsche Bank
When considering full year '26 distributions, will it be pro forma for the Basel 3.1 reduction in RWAs as that 1st of January 2027? Are there any other regulatory moving parts of RWAs in 2026, or will they grow in line with the loans? Suspect both of those for you, William.

William Chalmers:
Sure. I will kick off and Charlie may want to add about some of the strategic ambitions. It's obviously far too early to talk about full-year '26 capital distributions. We've just gotten to the point of offering £3.9 billion in respect to '25, which in turn, as you know from both Charlie and my comments, there's a 15% increase in the dividend and a £1.75 billion buyback. So we think that's a respectable outcome in terms of '25. To be clear, we do expect to grow capital distributions in respect to '26. That comes off the back of the increased yet capital generation of in excess of 200 basis points. So there's no debate about the direction that we're going in, but as you can imagine, Rob, I'm going to stop short of making any commitments about it. That'll be a question for the board at the right time.

I might just pause for a moment on Basel 3.1, a couple of points to make really here. One is, as you know from our disclosures this morning, we do expect Basel 3.1 to be a positive from the company's point of view. That is to say to reduce RWAs by the range of £6-8 billion. We'll see, depending upon evolution of the balance sheet and indeed evolution of economics that drive some of the factors behind Basel 3.1, exactly where within that landing zone it ends up, but that's the range that we expect. Why is it that we expect that benefit? It's largely off the back of the commercial business and the fact that we are currently operating on foundation IRB, whereas other commercial businesses that we see in the market are typically on advanced IRB, and therefore as Basel 3.1 gets implemented, there's less, or rather maybe put it another way, there is some benefit for us because of our start point.

That's where the majority of benefits come from. There is a little bit from retail as well, but that's the overall pattern of the Basel 3.1, as I say, RWA reduction. It's also worth briefly straying off Basel 3.1 for a moment on this, which is to say, we have now landed our models for CRDIV. That is consistent with our £2 billion RWA add-on in quarter four, to be clear. We are now in the process of gaining PRA approval. Until we gain that PRA approval, there is obviously a little bit of risk around the PRA taking a look at it and, if you like, intriguing into a discussion with us. So let's see where that lands. We are where we are with good reason, but I just want to highlight that in the context of the Basel 3.1 benefits that we see. Finally, in terms of distributions, Rob, as said, I'm not going to comment on the quantum. I have commented already on the direction. I do think it's important to say in that context that Basel 3.1 is going to give us RWA relief. You can figure out how many basis points of capital that RWA relief equates to. We certainly have done. We will look at investments in the business, to be clear. We will clearly look at maximising long-term value of the company, and that is in the spirit of maximising long-term capital distributions to shareholders, for sure. But we will look at, in the context of the overall capital position of the company, where we might deploy investments in the shareholders' best interests, rather than necessarily automatically pay everything out the minute that we get a pound in.

That is not to say that we will not pay any element of that Basel 3.1 benefit out. It's not to say that, but it is to say that we will look at the round in the overall capital position of the company, and we will make the appropriate investments to ensure that the franchise stays as strong tomorrow as it is today, and is capable of delivering shareholders what they want and need.

Charlie Nunn:
The only thing I might add is, look, William and I were really conscious as we came in today that we weren't able to give you financial guidance beyond 2026 until July, and so what we've tried to do today is do a couple of things. One, give you some confidence in the momentum, and the underlying business direction and efficiency that we're delivering over this period, and that momentum will continue. The second thing was to give you some specific numbers where we felt guidance was appropriate, so the structural hedge in '27, and then some of the language William's used around that, remaining supportive through the back end of this decade, even with our assumptions around how rates and the yield curve will evolve.

And then the RWA release we just talked about, again, you can see that we have the capacity to continue to really drive this business forward. And then obviously the third thing is those three statements that we've both repeated a couple of times, that we see beyond 2026 the opportunity to increase revenues, increase operating leverage, and increase shareholder returns. So we'll come back in July and give you that broader view around what that really means. But you can see we were just trying to sow the seeds for you to really understand why the confidence that we have around this business in '26 and going forward is grounded.

Douglas Radcliffe:
Thank you. Let's return to the room. Let's take a question from Jonathan at the front.

Question 8: Jonathan Pierce, Jefferies
Thank you. Good morning. It's Jonathan Pierce from Jefferies. I've got two. The first one's just a modelling question, really. The fair value unwind, and the amortisation of purchase intangibles. Consensus has those broadly holding moving forwards. My suspicion though is those are going to come down quite notably, certainly by '27, '28. Can you just confirm where that number will be, those two items in aggregate, please, a couple of years forward? The second question, I'm sorry to come back to this point on capital-generation, but it is clearly a major part of the story. And the guidance for this year for free capital-generation of over 200 basis points obviously incorporates RWA growth and all these sorts of things. So we can see there's about £5 billion of free capital from that.

You've got another 20 basis points reduction in the equity tier one to come, which is another £500 million, and then you've got the day one, Basel 3.1 of circa another billion pounds, first of Jan '27. So that's £6.5 billion taken into account, organic investment and RWA growth at least. How should we think about the mix of buybacks and dividends moving forwards? And in particular, I'm interested in the dividend payout ratio, because William, you've been keen to flag several times in the last few months that the dividend payout ratio is too low, yet again, consensus doesn't really have it moving over the next few years. So is there scope here for that dividend to start growing by somewhat more than 15% a year over the next 2 to 3 years? Thanks.

William Chalmers:
Yeah. Thanks for those questions, Jonathan. I'll take both of them in the first instance, it may be that Charlie wants to expand a little also on the second in particular. On the fair value and amortisation component, that has seen, as you know, a Q4 charge of I think about £34 million... £35 million, actually. That is more or less consistent with the run-rate, primarily related to businesses, many of them going back to the HBOS days and so forth, which in turn are amortising over the last couple of years, and indeed into foreseeable future.

We did see a bit of a step down during the course of the year, and we do see expectations of a bit of step down, consistent with your question actually, Jonathan, over the course of the coming years. And that is as certain instruments that are getting effectively amortised in the context of that line coming off. The HBOS debt instruments are one example of that. And so you should expect downward pressures to come from that. The only point I'd make in addition to that is that, as Charlie mentioned, we've done a couple of acquisitions this year, SPW being one, Curve being another, and so that will add to the pile of stuff, if you like, that then needs to be amortised in the future periods. So all being static, I would expect that line to gradually come down for the reasons mentioned, much of it relating to HBOS amortisation. Having said that, we've added on

a little bit in the context of '25 off the back of those two acquisitions, and therefore, we'll look at the net of those two, rather than just one point in isolation.

The second point I would make on that fair value unwind intangibles point is that, as you know, the bulk of it has nothing to do with capital. So while it may actually help the overall build in RoTE over time, not by much, but it'll make a positive difference, nonetheless, don't expect that necessarily to feed into the capital generation of the company, and so just worth bearing that in mind. The second point, the capital-generation, without commenting too specifically or directly on your numbers, I can see how you get to them, maybe that's the best way of putting it. That relates to the capital-generation of the company, it relates to the 13.2% down to 13%, which has said we've got a commitment to getting down to at the end of 2026. The Bar 3.1 basis points, you can tell, from £6-8 billion range that we've got, what type of capital contribution that might make.

Just as I said earlier on though, just bear in mind that we're not completely settled on CRDIV until the PRA is signed off, just bear that in mind, really. And then what does all that mean for the capital generation of the company and dividend payout ratio and so forth? One point that I'd make at the outset there is that the dividend, if you like, needs to take into account recurring earning streams within the company, whereas the buyback is more capable of taking into account lumpy benefits, and therefore, the buyback is more attuned to dealing with things like Basel 3.1, whereas the dividend is more attuned to dealing with the ongoing earnings flow of the company, and that's an important start point for the way in which we look at it.

When we look at the buyback versus dividend equation, we are committed not to a payout ratio within dividend, as you know, but more to a progressive and sustainable dividend policy. And that of course means growth, but it means growth in a sustainable way. Which for those of you who are long in the tooth like I am, will remember that is particularly important to Lloyds, having the history that it has. So both growth, but growth in a sustainable manner for the dividend. You've seen that over the last 2 or 3 years, that's meant 15% dividend growth, which now is 80% above where it was in 2021. And the point of emphasising the payout ratio is not to say that we're changing our policy, or that we have a payout ratio policy, but rather to say that there is a lot of room for progressive and sustainable dividend growth in the periods going forward.

And what we'll end debating with the board, I'm sure, is do we take a step jump in one period of time for that dividend? I.e. see a sharp growth in one year, and then attenuate the growth in the periods thereafter, or do we keep the 15%, or thereabouts, growth rate going for some years into the future? And I think the good thing about where the business is right now is that based upon the guidance and expectations as to continue business growth, we have the scope to do one or other of those two. And that's the point of emphasising the fact that we're on a low payout ratio.

It is hard to put a finger on exactly where that changes, but we obviously pay attention to the payout ratios that other banks, not just in the UK, but beyond, get to. But again, progressive and sustainable dividend policy is what it's all about. In that context, it's worth just briefly commenting on the buyback, and how do we look at the buyback, and what's the impact of the price and so forth on the buyback, because that's an inevitable part of the equation. First of all, I'd say the buyback in respect to '25, the £1.7 billion that we bought back, was bought back at an average share price of 77 pence per share. So when we look back on it, that obviously looks like good value now, and we very much hope we'll be saying the same thing this time next year, of course.

We are committed to the buyback that we have today. We also see significant value in the current share price, and so that commitment to the buyback makes sense in the context of the share price that we're at today. That's in the context of expected earnings growth, expected TNAV growth. It is also in the context of investors who basically see it the same way as we do. That is to say, they have a preference for the buyback, and we obviously have to respect that as our owners.

Alongside, investors and owners who prefer income have it, and they have it from that 15% dividend growth, number one. They also have it because the buyback reduces the number of shares, and therefore, helps us accelerate dividend growth on a per share basis. Number two, we look at the buyback also with the EPS, the DPS, the TNAV per share benefits that it gives. And then in around therefore, we are still very much behind the buyback. We think it's a very sensible thing to do for all the reasons emphasised. That means, I think, Jonathan, looking forward, that dividend, progressive and sustainable growth is an expectation, certainly a core expectation of us, as I said in my comments, an attractive pace, but I think excess capital distribution,

both for the reasons that I just mentioned, also to accommodate, if you like, lumpy capital benefits, Basel 3.1 being the best example, with buyback is a good way to do that.

Charlie Nunn:
It's a pretty full answer. I think we said in the last few years, this is the problem we wanted to have, that we get to a place where we have very strong capital distribution, and our valuation more fully represents where we're at today. And as William said, we think there's more value to come, but this is the right debate for us to be having, and we'll really value input from all of you and our shareholders as well as part of that as we go forward.

Douglas Radcliffe:
Excellent. Good. We've run out of time, but I'll take a couple more questions. I think, Sheel, you had your hand up, and Chris. So if we start with you, Sheel, and then we'll finish with Chris. Thank you very much.

Question 9: Sheel Shah, JP Morgan
Sheel Shah, JPMorgan. Two questions from me, please. First on the IP&I business, the other income's grown strong at 11%, but one area where maybe the strategic initiatives have been a little slower to show there is maybe the net flows. Net flow rate of growth has been maybe at the low single-digit percentage. How much of that is a function of the market, and what do you think is the natural growth rate of this business?

And secondly, coming back to AI, the £100 million that you've spoken about, there's a lot of focus on the ROI of these investments, is that on a gross basis, or is that including the cost of these investments that you've made?

William Chalmers:
On the strategic investments in particular, Sheel?

Sheel Shah:
Sorry, the AI.

William Chalmers:
Right. I missed that. Okay. Charlie, should I kick off briefly.

Charlie Nunn:
You can, and I'll add on the IP&I one, if you want.

William Chalmers:
In terms of IP&I, the business, as you say, has been really successful in terms of growing some of its core activities. You'll notice that the IP&I business recently last year, maybe actually '24, it might have been tail end of, effectively focused the business on 2 or 3 core strategic areas. These include things like GI, it includes things like workplace pensions, for example. At the same time, it sold the Bulks business. That was a reflection of the strategic focus of the business, and a very deliberate capital allocation decision upon those areas where we frankly felt we had a right to win, and indeed, a path to ensuring that we did so. So that's what's behind the positioning of the business. That's also what's behind the 11% OOI growth in respect of Insurance, Pensions and Investments in 2025, and that added to the acquisition of Schroders Personal Wealth, now to be Lloyds Wealth, should add to greater growth, i.e. faster growth in OOI from IP&I going forward into 2026. That's the earnings story.

You talked about book growth there, I would just distinguish in doing so between what we describe as the open book growth versus the closed book growth. And what we mean by that is that we're very interested in growing assets fast in the context of those businesses that we are strategically focused on, just as I mentioned a second ago. And if you look at open book AuA new money in 2025, it's almost £8 billion. It's about £4.2 billion in Q4, of course, we would expect to see that build over the course of time, and off the back of the strategic focus and investments in the businesses that I've just mentioned, you should expect to see that. I won't give you a precise run-rate that we expect to target the business at. Safe to say that it's strategically focused and concentrated. And in addition to that, with that type of investment, with that type of background and context, we would expect those open book AuAs to grow at a faster base, or faster pace than necessarily the totality of assets under administration, and the entire IP&I business might do.

The second of your question, ROI always takes account of the investment. Charlie?

Charlie Nunn:
So just the only other thing I'd add on the workplace business is the benefit here of being a joined up Group is really helpful. We have all of our million BCB customers, and all of our Corporate and Institutional customers, and so the joined up connectivity between the workplace team and our commercial teams is very strong, and you should continue to see us winning mandates, although the percentage of mandates in any one year is quite low, as you know, is only about 2% of the pensions market is switching workplace pensions, but it's a source of competitive advantage for us.

And then the Lloyds Wealth acquisition, we said it both pretty quickly, I think. We see that as an opportunity obviously for our retail customers, and especially mass affluent, but also our workplace customers, and for all big workplace pensions businesses, and we're number two today. As you know, attrition and consolidation as we get nearer the accumulation phase for people is one of the choices where people decide where they're going to consolidate their pensions. And we now have an advisory proposition we can bring to bear for our customers in the workplace business. So it helps us have another tool for supporting customers when they're making those really important choices, and can help us manage attrition on that business. So we do think it's a really attractive business. Now it's at scale, good returns, and does have the potential to continue to grow healthily.

Douglas Radcliffe:
Excellent. Chris?

Question 10: Chris Cant: Autonomous
Thank you. It's Chris Cant from Autonomous. Just trying to round things out, I guess. With regards to the commentary on AI and digital leadership, the comment you made about reaching the end of this investment cycle and that being part of what's, I guess, helping control costs in '26 specifically, as you look out to the next planning cycle, is it really a case of just redeploying the sort of investment spending that you've been doing over the last 3, 5 years? So changing the focus to focus more on this digital AI leadership angle? Or should we expect some kind of lumpiness? Do you feel like you need to have a front load of investment in relation to this GenAI opportunity that you see? So should we expect that progress towards operating jaws to be gradual, or should we expect it to be, I guess, back end loaded? Is there anything you want to say there? That would be helpful.

And then just kind of reading between the lines a little bit, I get a distinct impression that you see one of the key opportunity sets within this AI revenue opportunity that you were pointing to as being the fact you have the captive insurer, you have this workplace business, could you comment on your inorganic appetite in that space? So you've been linked to Evelyn Partners, I'm not expecting you to comment on a specific transaction, but I'm sure you've seen the same headlines we all have. I asked you about Schroders' last summer, and you bought that. There's the Aegon UK workplace business potentially up for sale. I'm just curious, am I right in inferring that that's the key area that you see, the next leg of the strategy for OOI growth? The last few years has been a lot about the leasing business, and that's been a huge driver of the overall other income growth. As we look forward, is it more about the fact that you're this joined up Group and you can cross-sell and you can deploy AI to do that? And is that where we should be directing our attention? Because I think we probably all under-analyse your insurance business, frankly.

William Chalmers:
Thanks for the question, Chris. In respect of the AI opportunity, it is obviously gathering pace, as Charlie has mentioned in his comments. We've seen some foundation-building during the course of '25. We're seeing scaling during the course of '26, and Charlie mentioned the 4 or 5 blocks of activity that that relates to. When we look at the impact on that and the next strategic plan in the period beyond 2026, that opportunity is going to grow meaningfully. It will grow both across the revenue opportunity, and just as you said, not just within businesses, but in terms of linking businesses up together, for sure.

You asked about the nature of the operational leverage, and whether that is backend loaded or whether that is a continuous commitment. Maybe make two comments. One is the improvement to operational leverage is intended to be about momentum. That is to say that we are delivering sub 50% cost income ratio in '26. We'd expect that momentum to be sustained in the years thereafter. Now, inevitably, when you make investments

early on in the strategic cycle, just as we are in this one, you will see that momentum accelerating towards the end of the strategic cycle. But don't misinterpret that as being a lack of momentum in the years '27, '28, and so forth. So that's the way I would look at it.

It is sustained momentum. It will inevitably, because of the nature of investments and the way in which they mature, accelerate towards the back end, but that's just the way of things, and you've seen it in the course of this cycle. The final point that I would make on that, perhaps before handing back to Charlie, is that I hope that when people reflect upon this strategic cycle, people will believe that we've invested the money wisely. That is to say, we've invested £3 billion over the course of three years, just over £4 billion over the course of five years. That is starting to yield returns of the type that we're describing today. That is also what is behind our confidence in improved income growth, continuous operating leverage improvements in a period beyond '26, and indeed enhanced RoTEs, and therefore capital-generation expectations in the period beyond '26. So when we look at the overall investments in AI, just to mention one class of investments amongst others, you would expect us to invest wisely. And I very much hope this strategic cycle at least gives confidence in that respect.

Charlie Nunn:
Great. You're close to getting us to talk about beyond 2026, which we are vehemently against, because that'll be July. Just in your terms of your second question, a couple of things, and obviously you wouldn't expect me to talk about individual companies, despite the fact that you pointed out Schroders Personal Wealth last summer. Look, the first thing, again, on OOI growth, it's an 'and' not an 'or' strategy. So we expect to see growth in all of those OOI pillars that we talked about. We're excited about the future of transport, we're excited about the future of our payments business, and we've just bought Curve. We've captured market share in credit card payments, something as old-fashioned as that during this cycle, we've gone from less than 15% to 17.5%, one of the targets we said we would deliver, we delivered that last year, two years early. We're excited about the opportunity to continue to grow our Commercial businesses that underpin OOI.

William talked about the momentum in Lloyds Living as an example, so it's an 'and' strategy. Yes, we are excited about the opportunity to continue to grow our Insurance, Pensions and Investments business, and so we see that as a really significant opportunity, not least because they're great standalone businesses themselves, but they are unique in our ability to bring them to our broader Group. The connectivity into our Commercial franchise, and our Retail franchise specifically, no one else in this market can do that, and we see there's lots of opportunity to innovate.

In terms of acquisitions as a path for that, look, I think William laid out very cleanly how we think about those. Both our track record, yes, we will do them, where they accelerate our ability to deliver distinctive capabilities strategically and scale that makes a difference for our customers and our shareholders, but we do have a high bar for those, and we'll continue to look at it in that context.

I know, Chris, you'll remember, back in '22 when we laid out this phase of the strategy, we laid out which businesses we aren't operating at the kind of 20-ish percent market share range. And as you know, there's still a number of these businesses. Actually, our workplace pensions business is pretty healthy in terms of its market share, but investments, and then some of the associated areas around that, we're not operating at that level. That's also true in some parts of the payments space, in some parts of SME banking. And so we see opportunities to really grow in a number of businesses, and yeah, IP&I is definitely one of them.

William Chalmers:
Chris, just to perhaps finish off on your SPW example, it is worth saying that we acquired their full control of what is a great business that will extend our wealth proposition to the customer base, alongside £18 billion of assets under management, assets under administration, as well as an addition of circa £180 million of earnings, and it was all for zero capital cost.

Charlie Nunn:
And actually, just one more thought on that, because we're doubling down, but it's getting to the end, 300 great advisors, which is quite a material team that we can then apply into our broader Group, who are advisors we know, we love. Some of them worked at Lloyds, and we are confident in their conduct outcomes. So for a Group like us, that's a hugely important part of making an acquisition like that. So well-spotted last summer.

Douglas Radcliffe:
Excellent. Thank you. That concludes the questions. I don't know, Charlie, whether you want to just briefly summarise and conclude the event.

Charlie Nunn:
First of all, thank you, Douglas. Thanks for hosting the questions, and thanks to everyone who's joined in the room and offline, we really appreciated the questions. Thank you for bearing with us as we've got this gap between this year-end and our July new strategy and financial guidance. We're really already looking forward to July, but let's stay in the moment for a second. I know it's a busy moment. We've brought our results forward, but I think there's 9, 10 other European banks live, so thank you for prioritising Lloyds over the rest. I don't know if you're going to be able to get the half-term if you've got families, but that's hopefully a benefit from all of this.

Obviously, our IR team is around for any further questions. As always, we'll be here for a few minutes ourselves. I'll look forward to seeing you in July. As I said, I'm really looking forward to that. William will do the Q1 results. As a team, we're going to be very focused on delivering 2026, and that's what we're going to be doing for the next few months until I see you again. So thank you very much for joining today, and see you very soon.

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 (including in relation to tariffs); imposed and threatened tariffs and changes to global trade policies; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the escalation of 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; 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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