LLOYDS BANKING GROUP PLC – Q1 2024 INTERIM MANAGEMENT STATEMENT – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

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LBG:
William Chalmers, Chief Financial Officer

William Chalmers
Good morning everybody and thank you for joining our Q1 results call. As usual, I will run through the Group's financial performance, before we then open the line for Q&A.

Let me start with our key messages on slide 2.

SLIDE 2 – DELIVERING IN LINE WITH EXPECTATIONS
In Q1 we continued to execute on our strategic ambitions. You've seen this in our deep-dive seminars, including the Mass Affluent and IP&I session last month. Strategic execution underpins our ambition of meeting more customer needs and securing higher, more sustainable returns.

Alongside in Q1, the Group, again, delivered a robust financial performance, in line with expectations.

The strength of the Group's business model and strategic execution, together with our sustained financial performance, gives us continued confidence in our guidance for both 2024 and 2026.

Let's turn to a financial overview on slide 3.

SLIDE 3 – ROBUST FINANCIAL PERFORMANCE IN LINE WITH EXPECTATIONS
As said, Lloyds Banking Group delivered a robust financial performance in the first quarter of the year. Statutory profit after tax was £1.2 billion, with return on tangible equity of 13.3 per cent.

In Q1, net income of £4.2 billion was down 9 per cent on the prior year, in line with the previous quarter. Alongside this, the net interest margin was 295 basis points, down 3 basis points from the fourth quarter of 2023.

Operating costs were £2.4 billion. This included elevated severance and the introduction of a new and P&L neutral sector-wide approach to the Bank of England levy, as we highlighted in February. Excluding the levy, operating costs are up 6 per cent year on year.

Asset quality remains strong. Excluding MES benefits, the asset quality ratio was 23 basis points. After MES benefits of £192 million, reflecting improvements in the economic outlook, the Q1 impairment charge was 6 basis points or £57 million.

TNAV per share is now 51.2 pence, up 0.4 pence from the end of 2023.

This performance resulted in strong capital generation of 40 basis points in the quarter, after regulatory headwinds. With this, we remain on track to generate circa 175 basis points of capital in 2024.

I will now turn to slide 4, to look at developments in the customer franchise.

SLIDE 4 – RESILIENCE IN CUSTOMER FRANCHISE
The customer franchise remains resilient. Total lending balances of £448.5 billion were down £1.2 billion in the quarter. This was driven by a £1.6 billion reduction in mortgages, with expected balance reduction linked to the refinancing overhang from maturities in Q4. We have since seen an increase in both application volumes and market share in Q1, which is expected to support growth in the mortgage book through the remaining three quarters of the year.

Elsewhere in the Retail businesses, there was growth across credit cards, motor and unsecured loans. Commercial lending balances were down by £0.8 billion in the quarter, significantly driven by ongoing repayments of government-backed lending in Small and Medium Businesses.

Moving to liabilities. Total deposits decreased by £2.2 billion in the first quarter. This includes growth of £1.3 billion in Retail, offset by a reduction of £3.5 billion in Commercial Banking.

Within Retail, deposit churn was roughly equal to Q4 after slowing from Q3. Savings accounts were up £1.6 billion, or £0.9 billion including Wealth. Alongside this, current account balances increased by £0.4 billion in the quarter. Within current accounts, seasonal tax payments were offset by strong inflows, alongside lower spend. The timing of the Easter bank holiday also played a role in adding to balances and we expect a reversal of this impact in Q2, meaning higher outflows in current accounts. Overall, the underlying flows in deposits are constructive and in line with our expectations.

In the Commercial franchise, the decrease in deposits was largely driven by balance reduction from Small and Medium Businesses. And in Insurance, Pensions and Investments, we have continued to see good organic growth, with circa £1.3 billion of net new money in the quarter.

Moving on to slide 5 and Group income.

SLIDE 5 – SOLID INCOME PERFORMANCE

The Group saw a solid income performance in the first 3 months of the year.

Net interest income of £3.2 billion supported a Q1 margin of 295 basis points, 3 basis points lower than Q4 last year. The slower decline quarter-on-quarter is consistent with our expectations for the year, as outlined in February. Behind the headline, margin development is led by the expected headwinds from mortgage refinancing and deposit churn, partly offset by the reinvestment of the structural hedge.

In the context of the deposit trends I described earlier, the structural hedge notional balance of £244 billion reflects a £3 billion reduction from year end. We do anticipate this pattern continuing during Q2, in line with our expectation of a modest reduction of the notional balance during 2024. This should stabilise over the course of the year as deposit churn slows.

Non-banking net interest income was £105 million, up on the prior year as expected. From here we expect a modest quarterly increase through the rest of 2024, reflecting continued business growth in a higher rate environment.

Average interest earning assets of £449 billion were down £3.7 billion in the quarter. This was driven by the previously mentioned mortgage outflows and continued run-off of government backed lending in Small and Medium Businesses. Looking ahead to the full year, we continue to expect AIEAs to be greater than £450 billion.

We also continue to expect the net interest margin to be in excess of 290 basis points for 2024. Within this, we anticipate that both the mortgage refinancing and deposit churn headwinds will ease through the year. The structural hedge will provide a continued tailwind, contributing in total around £0.7 billion higher income this year versus last. Within this, note that the quarterly contribution of the hedge may increase or decrease slightly, in line with pre-hedging and maturity profiles.

Turning to other income. OOI of £1.3 billion in the first quarter is up 7 per cent year on year, driven by progress in both the Retail and Commercial Banking businesses. This continued improvement quarter on quarter is in line with our expectations for other income to build gradually. It reflects broad based strategic investment and customer activity, driving business growth.

Operating lease depreciation of £283 million represents an increase compared to the prior year. This is due to growth in the fleet size of Lex and Tusker, as well as declines in used car prices and normalisation of the charge.

Stepping back for a moment. As you know, we are investing significantly for growth across our income streams. Indeed our recent seminars are highlighting the areas of investment that underpin our ambitions.

Now moving on to costs on slide 6.

SLIDE 6 – CONTINUED COST DISCIPLINE

Cost management remains a core discipline for the Group. Operating costs of £2.4 billion in the quarter are up 11 per cent year on year. They include expected elevated severance charges, taken early in the year to facilitate cost efficiencies, as well as a circa £0.1 billion charge relating to the sector-wide change in approach for the Bank of England levy. As you will remember, we spoke about this point at year end. Excluding the levy, operating costs were up 6 per cent on the prior year. Excluding the levy and the component of severance in excess of Q1 last year, costs are up 1 per cent.

The Q1 cost-to-income ratio was 57.2 per cent, or 54.4 per cent excluding remediation and the new levy.

The Group continues to maintain cost discipline in the context of inflationary pressures and strategic investment.

We still expect to deliver operating costs in 2024 of circa £9.3 billion, now plus £0.1 billion for the Bank of England levy.

It is important to note that whilst the full cost of the levy is recognised in Q1, the impact on profit will be roughly neutral in 2024. An offsetting gain will be recognised monthly in net interest income.

Moving on, the remediation charge is low at £25 million. This is all in relation to pre-existing programmes. There have been no further charges relating to the potential impact of the FCA motor finance review.

Let me now move to asset quality on slide 7.

SLIDE 7 – STRONG ASSET QUALITY

Asset quality remains strong across the Group. Mortgage arrears and default rates are improving. Within this, the slightly elevated trends in legacy mortgages seen last year are now easing.

Other retail portfolios remain stable, with unsecured assets continuing to exhibit low new to arrears and default trends, broadly at or below pre-pandemic levels. Commercial Banking also remains resilient, with stable customer behaviours, such as working capital utilisation rates.

The impairment charge of £57 million for the quarter equates to a very low AQR of 6 basis points. It benefitted from strong observed performance and an MES credit, given improving economic forecasts.

Before forecast adjustments, the observed impairment charge was a still low £249 million, or 23 basis points, reflecting a resilient customer base and a prudent approach to risk.

Compared to the prior year, the charge remains at low levels across the Retail portfolios. Meanwhile Commercial Banking benefited from a one-off release of circa £50 million based on a better, more granular understanding of our portfolio and modelled loss rates.

As mentioned, Q1 also saw a net MES release of £192 million due to updated economic forecasts, reflecting improvements in the outlook.

We now expect HPI to rise by 1.5 per cent in 2024, given observed resilience in the housing market. In addition, our unemployment expectations continue to assume only a gradual build to a now lower peak. Behind this, we continue to expect three base rate cuts this year, starting in Q2.

The stock of ECL on the balance sheet stands at £4.1 billion. This is still over £600 million above our base case and higher than pre-pandemic levels on a like-for-like basis. This drives strong coverage levels across the portfolio.

For 2024, we continue to expect the asset quality ratio to be less than 30 basis points. This guidance is further reinforced by the charge in Q1.

Let me now move onto slide 8 and address the below the line items and TNAV.

SLIDE 8 – ROTE ROBUST, TNAV BUILDING

Statutory profit after tax of £1.2 billion resulted in a robust return on tangible equity of 13.3 per cent for the first quarter. We continue to expect a return on tangible equity of around 13 per cent for the full year.

Within statutory profit, restructuring costs were £12 million for the quarter. This should be roughly the run rate going forward.

The volatility and other impact of £117 million was largely composed of a £114 million charge for negative insurance volatility. This was a function of the increase in long-term rates, partly offset by positive banking volatility. The charge also includes the usual fair value unwind.

Tangible net assets per share at 51.2 pence are up 0.4 pence in Q1. The increase was driven by profit accumulation, partially offset by the impact of movements in the rate curve on both the cash flow hedge reserve and the pension accounting surplus.

Looking ahead, we continue to expect TNAV per share to grow over the medium term, from buybacks, growth and the unwind of headwinds. Inevitably, the growth trajectory may be influenced in the short term by rate volatility, just as we saw in Q1.

Turning now to capital generation on slide 9

SLIDE 9 – STRONG CAPITAL GENERATION
We delivered strong capital generation in the first three months of 2024.

Within this, risk weighted assets at £222.8 billion are £3.7 billion higher than at year end. The increase includes the impact of unsecured and motor finance lending growth, but also a temporary RWA increase related to hedging which is expected to reverse in Q2.

Capital generation was 40 basis points after regulatory headwinds in the quarter, and in line with expectations.

After 22 basis points of dividend accrual, the CET1 capital ratio stood at 13.9 per cent.

We continue to expect to pay down to a CET1 ratio of circa 13.5 per cent by the end of 2024 and to pay down to circa 13 per cent by the end of 2026.

We also continue to expect RWAs of between £220 and £225 billion at the end of 2024. Strategic balance sheet growth will be supported by active balance sheet management to offset regulatory pressures.

Based on our ongoing profitability and active RWA management, we therefore continue to expect 2024 capital generation to be circa 175 basis points.

Let me put our performance in context on slide 10.

SLIDE – 10 DELIVERING IN LINE WITH EXPECTATIONS
In summary, the Group is continuing to deliver in line with expectations. We are focused on our strategic execution. Alongside, we showed a robust financial performance over the first 3 months of the year, with solid net income, cost discipline and strong asset performance.

Looking forward, we are reaffirming our 2024 guidance. This is set out in full on the slide.

In the context of our Q1 performance and reaffirming our 2024 guidance, we remain well-positioned for the future.

That concludes my prepared remarks for this morning. Thank you for listening. I will now hand back to the operator for Q&A

Question and Answer Session

Question 1 – Aman Rakkar, Barclays Capital
Good morning, William. Thanks very much for the presentation. Two main questions, please. One on non-banking funding costs. I think that's a pretty decent pick-up quarter-on-quarter. I think you talked about a modest sequential pick-up, but I think it's up more like 25 per cent rate in Q1.

So can you help us think about that number going forward, and the extent to which it is set to continue rising from here? Clearly, that's a source of noise first thing this morning versus market estimates. So whatever you can do to help us understand the outlook for non-banking funding costs through the year, and what it means for the full year, would be really appreciated.

And, related to that, should we be thinking about any income benefit through, say, OOI associated with this?

And then, the second question is just more broadly on NIM, please. You've been really helpful in terms of thinking about the drivers, but could you help us think about the NIM trajectory into Q2 and putting some numbers on some of these driving forces? I note your comment around the hedge contribution on a quarterly basis might bounce around a bit. What I'm trying to tease out here is could we see a stable NIM in Q2 or is that a bit too early? Thank you very much.

William Chalmers
Thanks for the two questions, Aman. I'll take them each in turn. First of all, on non-banking net interest income, it increased from £80 million in Q4 to £105 million in Q1. We did guide to an increase in our Q4 numbers, and it's worth just putting it into context. That's an increase of £25 million in the context of £4.2 billion of overall income. But it is important.

We did advise it would increase going forward, simply because it finances OOI activity, which is growing. We're up 7 per cent year-on-year in Q1 OOI. So this is about the cost of financing those activities, which lead to the OOI growth. Types of activities behind it are motor leasing, it's about 40 per cent, 45 per cent of non-banking NII, and then, Insurance, commercial markets activities, and Lloyds Development Capital, each of which are around 20 per cent of the charge.

The increase in non-banking net interest income is about 50 per cent from growth in volume and about 50 per cent from rates increasing, as our financing of those activities evolves into a higher rate component.

That said, the growth component is correlated to the progression in OOI that we've seen, and you've seen that last year and again in this quarter be a pretty steady stream of growth. And then the rates increase is linked to around £10 to £11 billion of assets that are financed in the areas that I've just been through. But they're all financed over different terms, often in different ways. And so what we've done in the past, and what we continue to do, is to give you indications of future trends when we report this item.

As I said, we've seen non-banking net interest income of £105 million in Q1. I think based upon our look forward for the year as a whole, we see it as in somewhere around the £450 to £500 million range.

Now, if you think that activity and rates will be strong, you're going to be at the high end of that range, naturally because you're going to see expansion in other operating income, and likewise off the back of higher rates, if that's your scenario. If you see it at the other end of the spectrum, i.e. lower levels of activity, lower rates, then, of course, it's vice versa. But somewhere in that range is not a bad guide.

I won't comment beyond 2024. Safe to say that, as you know, our strategy is about growing these businesses. It's about growing the transport business. It's about growing the insurance business. It's about growing commercial markets and LDC. All in the appropriate way, but it is a growth strategy. And so you should expect to see this growth, and you should expect to see it sponsor decent growth within OOI which, at the end of the day, as I said, is very much behind our commitments in respect of '24 and in respect of '26.

And your second question is on net interest margin patterns. As you say, we saw a reduction in the net interest margin from 298 basis points in Q4 2023 to 295 basis points in Q1 2024. That was pretty much as expected. It was a significantly slower reduction in quarter one than we saw in quarter four, so three basis points.

It's being driven by a couple of principle factors. In terms of the headwinds, it's being driven by ongoing deposit churn, which was very stable during the quarter but, as expected, it continued. And it's being driven by the mortgage refinancing headwinds that we've talked about a number of times before. Maturing mortgages are coming off at about 128 basis points during the quarter and being refinanced back on at around 65 basis points. So there's a mortgage refinancing headwind going on there. And then, the principal offset to that, as you know, is the structural hedge, which is refinancing into a much higher rate environment.

Now, as we go forward, over the course of the year, we do expect those trends to start to inflect a little bit. In particular, we expect the deposit churn to stabilize over the course of the year and the structural hedge contribution will pick up. So what that means is that by the time we get to the end of the year, we do expect the margin to be taking a positive direction.

I would expect us, looking forward, to see a little bit more of the deposit churn, and likewise the mortgage refinancing headwinds, be a touch stronger than the structural hedge contribution during the course of the next quarter or so. But, at the end of the year, we expect the margin to be ticking up. So that's the pattern, that's the journey that I've described to you, Aman, which I hope is helpful.

Question 2 – Benjamin Toms, RBC
Morning. Thank you for taking my questions. The structural hedge notional was down £3 billion or 1.2 per cent in the quarter. Due to this, you'd expect the pace of production of the notional to decrease from here. I note your comments that you expect outflows in current accounts in Q2. Where would you expect the notional to get to by the end of the year versus the £244 billion today?

And then, secondly, there's no change in your motor finance provision in the quarter. You've no doubt had further conversations with the interested parties since your full year results. And, perhaps, could you just give us a high-level thought on how your

feelings have changed on the topic since the full year? Are you any more optimistic or pessimistic as we stand at Q1 results? Thank you.

William Chalmers
Thanks very much indeed, Ben. Again, two questions, and I'll take them in turn. On the structural hedge, as you say, we've got £244 billion of invested hedge right now. We have guided towards a modest reduction in the structural hedge over the course of the year, and included within that modest reduction is the £3 billion reduction that we saw in Q1.

So I think if you give some sort of colour to what a modest reduction means, it's worth having a look at last year for something that might be roughly similar. But, of course, it will depend upon how deposits evolve over the course of the period. I'll come back to that in just one second. I think what that means, Ben, is that we might see a touch more in the structural hedge adjustments than we have seen just in Q1. But, again, I would expect it to be within the confines of the modest reduction over the course of the year, perhaps not dissimilar to what we saw last year.

Now, that is all in the context of income from the structural hedge being £700 million higher versus last year, which, as you know, will take us to a full year income contribution in the structural hedge of around £4.1 billion. And, indeed, we see strong tailwinds from that contribution, not just in 2024, but also in 2025, and particularly within 2026. And so you have a decent pick-up from that structural hedge in the years looking forward.

I think one point to put into context there is the deposit performance. As you can see from the deposit performance I commented on earlier on, but, overall, particularly within the retail space, it's been a pleasing deposit performance. We've seen savings up £0.9 billion during the course of the quarter.

We've been seeing PCAs up £0.4 billion during the course of the quarter. And while some of that was a benefit from the bank holiday weekend, at the same time, we always see Q1 as a tax outflow period. And so from slightly stronger inflows from, if you like, less significant outflows, we saw a robust performance in PCAs. It'll come off a bit in Q2 because of that bank holiday benefit. But, nonetheless, it's a decent performance in PCAs.

And with that benefit, I'm sure, over time, it will have an impact on the structural hedge. So we feel very comfortable in the combination of deposit performance and how that informs our expectations for a modest reduction within the structural hedge.

Your second question, motor. In essence, on motor, there is no new news. We, as you know, took a £450 million provision at the end of the year. That was based on a variety of scenarios about how this issue might play out. We are engaged in, as is the rest of the industry, a data gathering exercise right now. We saw the FCA comments around the speed of that data gathering exercise.

From our perspective, at least, we're doing everything we can to support in that and believe that we are making good progress. So that is going very much according to plan. We have seen the various bits and pieces of commentary from the FCA, and how they might look at this industry. And, in particular, the structural importance of this industry and the role that the FCA review might play in ensuring an orderly outcome for what is a vital industry for, not just the UK car business, but, of course, consumers accessing car finance.

So stepping back, Ben, we realize the FCA is looking for misconduct and customer loss number one. As you know, we believe that we have complied with the regulations at all applicable times. We look forward to the review providing clarity, but we also look forward to it providing a secure place for motor finance, going forward.

Question 3 – Joseph Dickerson, Jefferies
As we move into Q2 and Q3, do you expect the improvement in mortgage approvals to start to translate into open book mortgage growth in Q2, or is it going to be later in the year? And then, secondly, I see the growth in the current accounts on the retail side, but what are you seeing as well in Q2 thus far on SME and commercial deposits? Many thanks.

William Chalmers
Thanks, Joe. In terms of the quarter one mortgage performance, and then I'll answer your question in terms of the look forward on mortgages. A couple of points to make, really. One is, we flagged at Q4 that we had a mortgage refinancing overhang in the context of Q4, which we expected to take a toll on mortgage book growth during the course of Q1. And it rolled out pretty much exactly as we expected. That is to say refinancing decisions were taken, and off the back of that, we saw a slight reduction in the open mortgage book, alongside a modest reduction in the closed mortgage book, together contributing to a £1.6 billion reduction within mortgages as a whole. So that refinancing piece played out pretty much as we had guided and as we had expected.

What also happened is that the mortgage market itself picked up, and so we saw a 20 per cent increase year-on-year in terms of applications. And we played a decent role in that.

We saw our market share go up to just over 19 per cent in terms of that applications volume. And that, I think, sets us up for a better year, in the context of mortgage growth, for the sector as a whole, and for Lloyds Banking Group within that. So we are expecting mortgage growth over the year as a whole. And, actually, the events of the first quarter have probably underlined our conviction in that development.

I won't be too precise in the quarterly development on exactly how it flows through, but I think we have seen better progress than we expected within Q1 on mortgage volumes. And we expect the development of the market to be stronger in 2024, perhaps, than we had previously anticipated. All of which, I think, is a good thing for the development of the asset.

Your second question there, in terms of the performance of deposits in the commercial space, let me give you a bit more colour on that. As you said, retail was really good; a really strong performance across savings and across PCAs. Moving into the commercial area, I highlighted in my comments that we were about £3.5 billion down in commercial banking deposits. What's going on there? Just to pull that apart a bit.

First of all, the corporate and institutional business. We, in the past, have taken out term deposits. They are relatively expensive, not surprisingly, because of the dynamics of capital markets. We've got a very liquid balance sheet, as you know, a loan to deposit ratio of around 96 per cent.

In that context, we can ease up on some of those deposits, which are at the more expensive end of our range. And so, as a result, we've seen about £1 billion of that £3.5 billion leave off the back of reducing effectively high cost deposits within CIB, which we see as a value added step for the business.

The second component, in the context of SME, that is responsible for the other roughly £2.5 billion of deposit reductions within commercial banking. What's going on there? One is just a very seasonal factor, which is to say tax payments from our SME customer base, which happens every year. And so that part of the trend is entirely expected and is just as last year.

The second point is, despite my earlier comments, because the market in mortgages was slow last year, the housing market has been relatively slow in terms of, in particular, the legal sector this quarter. And so there were some lower deposit volumes within the legal sector within SME reflecting the balance of completions from last year in the mortgage market.

And then, finally, in contrast to retail, the SME business in the deposit area was somewhat adversely affected by the bank holiday. And that's simply a function of payments in and spend out. And we think there was a bank holiday impact there. We're not going to put a precise number on it, but it was in the several hundred millions. Which, in turn, means that the underlying SME performance in deposits was actually a touch stronger than the headline suggests. So I hope that's useful, Joe, and gives you some context on SME performance.

Joseph Dickerson
That's very helpful. And, presumably, the commentary on the mortgage share of apps and better progress in Q1 gives you conviction in the AIEA guide.

William Chalmers
Yes, and it's a good point to raise, Joe, it does. We said at the end of last year that we expected AIEAs in 2024 to be greater than £450 billion. We do, indeed, continue to expect them to be greater than £450 billion. And if anything, the developments of the quarter, in terms of not just mortgages but also unsecured for example, give us greater conviction in that AIEA performance over the course of the year. So we're sticking with guidance, but I think it is guidance that has greater conviction behind it.

Joseph Dickerson
Great. Thank you.

Question 4 – Jason Napier, UBS
Morning, William, thank you for taking the questions. The first one, building on a previous question around funding mix and deposit movements; Charlie has spoken in the past about the potential to run a slightly higher loan to deposit ratio. Also, funding volumes are up a tiny bit in the quarter, which I guess is more deposit driven than anything else. But I wonder whether you might talk about where you think par is for loan to deposit ratio, how that might change as we come to repay the TFSME, and what that means for NIM overall?

And then, secondly, capital generation in the quarter, notwithstanding the temporary RWA growth, was very good on an underlying basis. And positions you to do quite a lot better than the 175 basis points of CET1 in 2024. So I wonder whether you could talk about any foreseeable headwinds around capital generation in the residual three quarters of the year, and whether you've allowed for any further provisions below the line that might make 175 basis points more reasonable at current run rates.

William Chalmers
Thanks, Jason. Again, two questions, and I'll take them in turn. The loan to deposit ratio finished the quarter at 96 per cent. That is relatively low, as you know, by historical standards, although one has to take into account the variables or idiosyncrasies of any given historical period.

First of all, your comment in terms of wholesale funding, I wouldn't read too much into wholesale funding volumes in any given quarter. Money markets, for example, will fluctuate as part of that and give you slightly different reads on any given quarter.

The pattern for wholesale funding costs, which is perhaps one of the points behind your question - we saw a jump in wholesale funding costs last year in line with maturities around £250 million or thereabouts. The expectation this year, because of maturity profiles, because rates expectations being what they are, we expect that wholesale funding cost increase to be much less. So, that is built into our greater than 290 basis points NIM guidance. To be clear, I'll come back to that in just a second.

You asked about the equilibrium loan to deposit ratio or the strategic ambition around loan to deposit ratio. I think it is fair to say that we'd be very happy to see it a touch higher than 96 per cent. We don't have a target ratio associated with it. We do think that over time the expansion of lending activities within the business consistent with customer activity, number one, and consistent with the expansion of our strategic investments as part of our strategy, number two, should deliver lending growth that is a touch stronger than we've seen over the course, certainly over quarter one for example.

With that lending growth, we would expect to see the loan to deposit ratio develop but only gradually, because at the same time we are seeing the deposit markets expand and we're also seeing our share in those deposit markets perform very respectively.

And so, with that dynamic, we do see a bit of upward scope within the loan to deposit ratio, but not awfully much. That is a function not just of lending, but also strength in our deposit performance.

You asked about the impact of that on NIM. First of all, our guidance this year, as you know, for NIM is greater than 290 basis points. We feel very comfortable in that guidance, to be clear. When we look forward, as I mentioned in the earlier question, we do expect the margin to be ticking up at the back end of this year, and that gives you an indication of where we expect the net interest margin to be going in 2025 and then indeed in 2026. And that's a function of all the headwinds and tailwinds that we've described in 2024 continuing to play out as we go forward. So, that gives you, I hope, a bit of a sense of the dynamics behind the net interest margin over the course of the next year and beyond.

Your second question, Jason, capital generation, as you say, in quarter one was strong. You look at 40 basis points, headline level, that's after regulatory headwinds relating to CRD IV and transitionals of around six basis points. That is also after temporary RWAs of the one and a half billion that I mentioned - that's around eight or nine basis points.

And so, if you take all of those into account, you've got strong underlying capital generation of around 50 to 55 basis points thereabouts.

Now, for the full year we're sticking with our guidance of circa 175 basis points, which to be clear, is strong and should allow decent distributions. I'll come back to that at the end. So, we're sticking with our guidance of circa 175 basis points.

What's going on behind that? First of all, quarter one benefited from some share-based payments around compensation, employee share-save schemes being the very major part of that, plus also some market moves which helped us a little bit. The overall combination of that is we've probably got around 10 basis points or thereabouts benefit from those movements in Q1, share-based compensation and market movements, that are not going to repeat in Q2, Q3, Q4.

Building into that, Jason, as you look forward, bear in mind our guidance for the development of the P&L and the balance sheet, and then on top of that, one or two headwinds and tailwinds, which I'll elaborate on. We do have the tailwind of RWA optimization. Likewise, we have the tailwind of the giveback of that temporary one and a half billion of RWAs that I mentioned earlier on. Likewise, we have the insurance dividend in the second half of this year.

But at the same time, we have a couple of headwinds that are worth pointing out. CRD IV, we took £0.3 billion of CRD IV in Q1. We've probably got about another £1.6 billion or thereabouts to go for the remainder of this year. We have, as usual, the bank levy which will arrive in the fourth quarter, just as it always does. And then, alongside that, we've got various capital markets activities that may take up a bit of an impact on capital.

And finally, the organic RWA increase that you would expect us to see as we expand the balance sheet in line with Joe's question about mortgages, but also, we'll see that in the context of unsecured and other activities as well.

So, those are some insights on the headwinds and tailwinds that we expect to see in the context of our overall guidance. And it's that, Jason, that leads us to confirm our guidance of circa 175 basis points for the year, which again, is strong capital generation, number one, and board willing, subject to board's confirmation, should allow strong capital distributions at the end of the year, number two.

Jason Napier
Thank you. That's very clear. Thanks.

Question 5 – Rohith Chandra-Rajan, Bank of America
Thank you very much. I have two as well, please. The first one on volumes again, so average interest earning assets were down £4 billion in the quarter but spot loans were down £1 billion. Is that averaging or is there something else going on there, aside from what we see in the spot loan movement?

And I think, just a follow on to that one, you talked in response to Joe's question earlier about volume growth for the remainder of the year. Could you talk a little bit more about the mix there please?

And then, the second question, I think you mentioned mortgage completion spreads of 68 basis points. I was just wondering what you're seeing in terms of application spreads and how they are responding to the move higher in swap rates please.

William Chalmers
Got it. Thank you. First of all, you highlighted the lending versus AIEA growth. There's a couple of things going on in there really, which are around the timing of balances and around the volumes of balances. We saw AIEA reduction over the course of the quarter down about £3.7 billion, at £449.1 billion.

It is driven by a number of factors, which will play themselves out over the course of the year. So, the reduction in mortgages, for example, was somewhat offset by the growth in other retail, but obviously the mortgage reduction was bigger than the growth in other retail.

And then, at the same time, reduction in commercial banking balances. Again, I'll split that between business and commercial banking. The SME franchise, where most of that was a basically payback of government-backed, balance-backed loans, and that's been an ongoing phenomenon in the balance sheet for some time. It'll play itself out over the course of the year and maybe a little bit beyond, but the majority of SME reduction in balances, again, is bounce-back loan repayments.

And then, within CIB, balances will fluctuate because a lot of the activity there is driven by ancillary income ambitions. It is, from our perspective at least, generally a good thing when we can see solid other income growth, as we have seen in commercial, without too much balance sheet growth. That is very much the strategy. And so, you will see CIB balances kind of ebb and flow a little bit in that context.

Overall, we see AIEAs, as said, as being greater than £450 billion over the course of the year. The activities within Q1, if anything, have underlined our conviction in that. So, at the moment at least, I wouldn't get too focused on the distinction between lending and AIEAs. We think it will pass in the way described.

In terms of the overall mix, your question there was around how those balances develop. A couple of points to make there, Rohith. One is in respect of retail. We do expect to see continued growth in the context of mortgages and in unsecured and motor. That should continue over the course of the year. We are seeing some greater gearing in the context of mortgages there. Unsecured will continue just as it has done in Q1.

And then, within commercial, within CIB we'll see some ebbing and flowing, but overall, I would expect to see balances a touch higher at the end of this year versus at the end of 2023. And then, within SME, you're going to see those cross currents that I highlighted. That is to say continued payback of government lending, which is going to push down the expectation, in AIEAs within

SME, but at the same time relatively muted new credit demand from what are still relatively cash rich and quite shy of lending SMEs. So, I think pretty muted growth within SME, slightly more robust growth within CIB, all in the context of decent growth across both secured and unsecured in retail.

You asked about completion spreads in respect of mortgages, I think I've said 65 basis points earlier on, which is what we've seen in Q1. As you know, that represents a bit of an improvement over Q4, which is more like 60 basis points.

What's going on there? I think in the realm what's going on there is you're seeing a slightly stronger mortgage market, which as we said at Q4, we thought would lead to slightly stronger margin conditions. They're still relatively tight by recent historic standards, as you know, but nonetheless, slightly better completion margins than we saw during 2023, when let's say mortgage volumes were very limited and therefore competitive conditions were even more intense.

As said, we are seeing those ease up a little bit. We'll see how we go through the rest of the year, but our expectation is that completion margins will be at or around 65 basis points for much of this year.

I think if we see mortgage volumes increase, we might see that improve a little bit. And likewise, if it goes the other way, we'll see them a little bit lower off the back of that, but that is not our base case. Our base case is 65 basis points through the course of the year. If we see mortgage volumes increase, we may see some benefit.

Question 6 – Jonathan Pierce, Numis
Hi, William. Got a couple of questions. I'd like to actually step back a bit and think about the 2026 RoTE target. It feels like, as we get ever closer to that, you are increasingly confident of hitting it. And in that context, I want to ask two questions, if it's okay. They're both related to the hedge.

The first is the yield on the hedge, everything you've told us about the income in the notional this year suggests that the average yield will probably be about 1.7 per cent in 2024. By the time we get to 2026 if the yield curve holds, the five-year rate at least would've been above 3 per cent for nearly four years and would've averaged nearer to 4 per cent in fact. And accepting not all of your hedge will have rolled by that point, an awful lot of it will have done, and it's a significant move from 1.7 per cent up to something consistent with that in 2026.

And you've told us 2025's tailwind is not really that different to 2024, and you've started to allude a lot more in recent meetings to this additional tailwind in 2026. How much bigger is that, in broad terms? Are we looking at a tailwind in 2026 that's twice the £700 million that you're seeing at the moment? A level of guide around that would be really helpful.

The second question is on pre-hedging. So, to the extent to which you are locking this in today, again, I know you won't give us a precise number, but it'd be good to get a sense as to how many of the maturities over the next year or two you have pre-hedged. Is it 10 per cent? Is it 50 per cent? Is it all of it? Just to give a sense as to the risk to the 2026 target from the yield curve itself moving between now and then.

William Chalmers
Thanks, Jonathan. A couple of questions there, more or less both on the structural hedge, but I'm actually going to step back a little bit and describe some of the dynamics in RoTE in 2026 that go beyond the structural hedge. So, maybe I'll start there, Jonathan, which is to say fundamentally we do have confidence, significant confidence in our guidance for 2026 of greater than 15 per cent RoTE.

What is going on there? A couple of things. One is we do see a positive improvement in the macro. You'll have seen in our economic forecast, there's a bit of gathering pace. It's not particularly strong, but it is a stronger macro versus what we have seen.

Two is we do see an increase in net interest income that is driven by a number of organic activities. It is also driven by the structural hedge. I'll come back to that in just a second. So, that does step up.

The third component still within net interest income is the headwinds that we have seen abate. So, by the time we're in 2026, the mortgage refinancing headwind is done certainly towards the second half of it and the deposit churn has stabilized, particularly in the context of rates, as we outline them. So, the headwinds have abated alongside some of the strengthening tailwinds.

The third point beyond net interest income, or rather included in it and indeed going into other operating income, is our strategic investments have been realized, and those are both revenue metrics, which as you know should contribute a further £1.5 billion by the time you get to 2026 - and also some of the cost ambitions in the context of our strategic investments have been realized.

So, I'd say a tailwind in the context of revenues and also supportive in the context of costs. In turn, the cost points at least deliver a degree of operating leverage alongside stabilizing investments - that will be very helpful in terms of improving RoTE for the business going forward.

Overall, that is a stronger return in terms of the numerator that we expect to see develop. You've seen our macro assumptions, so they will help inform the AQR as part of that, Jonathan, but you are seeing a stronger return.

Now, to be clear, that is also on top of a higher TNAV, and that TNAV is higher because of profit accumulation, because of RWA accumulation to finance ongoing growth, because of the cash flow hedge reserve diminishing and the pension surplus building. So, it's a stronger return on a higher TNAV, leading to profit contribution that is significantly stronger as we move towards 2026.

Specifically, Jonathan, in respect of your structural hedge questions, you asked about the contribution this year. We said a number of £700 million higher income year-on-year. You asked about the full year yield on the structural hedge, it is about 1.7 per cent, your number is about right. That is in the context of, as you know, maturities, which are refinancing, pre-hedges which are coming on, and that's, together, what leads to the plus £700 million over 2024.

When we look into 2025, it really depends upon how rates go as to the added contribution in 2025. But as you say, in the past, we have commented that it won't be terribly different. It might be a touch better, but that really depends upon how rates fare over the course of the next periods ahead.

By the time we get to 2026, by virtue of pre-hedges, by virtue of the yield on maturities that roll off, we do expect structural hedge income to step up during that time. So, plus £700 million in 2024, a number that might be a touch above in 2025, but it's not unrecognizable, and then a step-up in 2026. And that's relatively well programmed in, in that we know the rates at which maturing hedges are coming off and we know the rates at which pre-hedges will be coming on.

The one point, Jonathan, which you mentioned in your question, which is not fully nailed down yet, is around the pre-hedging that is being put on for the 2026 outcomes. So, to elaborate on that a little bit, 2024 structural hedge income is now pretty certain, it's pretty much locked in.

2025 is not entirely locked in, because as you can imagine, we have a set of rolling maturities and they are not 100 per cent pre-hedged at the moment. So if we have a sharp rise interest rates, that'll contribute to a better outcome. If we have a sharp dip in interest rates, that'll be a sensitivity on a downside. And then the same is truer in respect to 2026, i.e. less of 2026 is locked in versus 2025. And that is simply a matter of prudential management of the hedge.

We're looking to secure stability and we're looking to secure shareholder value, which means that we lock into a certain extent but not entirely. Hopefully Johnathan, that gives you an impression as to the drivers behind the ROTE for 2026, the confidence that we have in the greater than 15 per cent, the fact that actually there are many drivers to the ROTE in 2026, which have nothing to do with the structural hedge. But then also gives you a bit of an impression, a better understanding, if you like, as to the expectations for the hedge this year and beyond.

Jonathan Pierce
That's really helpful. Can I just ask one very quick follow up and you'll probably say you're not answering this question, but is the maturity yield on the hedges in 2026 close to zero?

William Chalmers
Well, you're right, and I won't answer that question with any precision. Safe to say that, as you know, the structural hedge has been in place for quite a long time. It's in the interest, again, of securing stability of the earnings pattern so that we are not exposed to sharp rises or falls in interest rates. The reason why we do that, just to be clear, is because we want to secure for our shareholders a steady stream of dividends going forward. And so that is what's driving that stability concern.

And then it's around shareholder value in a similar way. We manage it in a way that is strictly governance by committees within the bank, but nonetheless allows us to ensure that we don't lock up deposits, if you like, when the curve is very flat and we're not getting rewarded for that locking up. We don't comment specifically on the maturities yield within any given period, safe to say because the structural hedge has been around for some time, inevitably it contains some pretty low yielding maturities which are gradually working their way through the hedge and we're seeing a chunk of those come off in 2026.

Question 7 – Guy Stebbings, Exane BNP

Hi. Morning William. Thanks for taking the questions. I had a follow-up on NIM and then one on volumes. On margin, thanks for the colour and the expectation to be back in growth by the end of the year and that sounds unchanged versus the guidance back in February, but at the same time, some of the drivers are perhaps running better than expected, such as the positive mix of where stock rates have held and the outlook for policy rates.

So should we infer that that conviction is enhanced and perhaps even the track is actually slightly better than prior expectations and we could be looking at stability perhaps as soon as Q2 and growth in Q3, accepting that guiding around specific quarterly NIM is challenging? But is that broad line of thinking on NIM trajectory actually fair?

And a supplement to that, I think you said maturing mortgage spreads were 128 basis points in Q1. Can you confirm if that's correct and in any sense on what we should be looking at for the rest of the year? And then on volumes, I was hoping you could elaborate a little bit on unsecured, which looked very strong in the quarter, particularly in motor and unsecured personal loans. Just wondering if there's anything lumpy there or is that a run rate we can expect to continue? Is that a sign of you leaning into credit given the more favourable macro? Thank you.

William Chalmers
Thank you. Guy. In terms of net interest margin, I think the patterns that we are seeing playing out are very much consistent with our expectations at Q4, and so we maintain our guidance of greater than 290 basis points and we have, as you would expect, conviction in that guidance just as we did at Q4.

Now, to the extent that things turn out a little bit better than we'd expected, for example, if deposit patterns reflect a little bit more strongly off the bank holiday timing issue that I mentioned earlier on, we'll take a look at that in the context of the quarters ahead. But to be clear, we're early in the year at the moment, we're only, what, eight weeks away from our quarter four guidance, so now is not the time to refresh that, we'll take a look at it depending on progress over the course of the year.

The added point there that I would make is that the margin performance is going to be dependent upon customer activity levels, upon how exactly rates play out over the course of the year, and of course on competitive conditions in areas like the mortgage market, for example. But it remains our base case that we are greater than 290 basis points in 2024, and we have conviction in that base case.

The third question, in terms of volumes, as you say, we saw some decent performance during the course of the quarter across the books and in particular across the unsecured books. A couple of comments in respect of motor, for example, we've now got a Q1 balance of £15.8 billion, that's about £0.5 billion up in the quarter. That is a combination of organic growth, number one, in terms of customer growth.

There is also a bit of restocking by the dealers in the course of quarter one. So a little bit of that £0.5 growth is off the back of restocking of forecourts. So that means that you shouldn't expect to see £0.5 billion in quarter two, but you should expect to see growth, to be clear, just may not be £0.5 billion.

So on the unsecured business, on personal loans for example, you have £0.7 billion in growth there. Don't forget the fact that we had the securitization activity in the course of quarter four in respect of that, and so you're not seeing the repayments affect the loans balance there.

So again, you should expect to see respectable personal loans growth going into Q2 and beyond, but I don't think it's going to be the 10 per cent level that you saw in Q1, simply because of that distortion effect around the repayments off the back of the securitization. So growth, but just not perhaps the £0.7 billion that you saw in Q1.

And then finally, in cards, as you know, we saw balance growth of £0.1 billion in cards. That is pretty straightforward stuff. I would expect that to continue over the course of the quarters going forward and dependent upon economics, it may be that it's a touch stronger if things play out in a more benign way from an economic point of view.

Now your question two, Guy. As you say, we did see maturing margins of around 128 basis points in quarter one, that compares to about 65 basis points on which it is coming on. Over the course of 2024 as a whole, we expect those maturity margins to be about 1.15 per cent. So that gives you an idea of what's going on there, is that as the - particularly COVID period - very high margins we wrote mortgages start to come off, the balance becomes a fairer representation of the whole book. So the 1.28 per cent in Q1 falls to about 1.15 per cent for 2024 as a whole. And that progress, it's a little bit lumpy on a month by month basis, on a quarter by quarter basis, but nonetheless, that progress continues through the course of 2025 into 2026, consistent

with my comments earlier on about the mortgage headwind gradually tailing off. Again, there will be bumps in quarters but gradually tailing off as we progress through to 2026.

Question 8 – Christopher Cant, Autonomous
Good morning. Thanks for taking my questions. I just wanted to come back on NIM and non-banking NII, please. So in terms of the NIM, as we think about progression Q2, just to understand your comments about the shape of the NIM during the year, given the Bank of England funding changes, my understanding is that that NII benefit will only start to impact the NIM essentially in the second quarter where you've had the costs in the first quarter. So maybe it's worth about one and a half, two basis points on the NIM on an annualized basis given your commentary.

Should we be expecting the NIM to be down still quarter on quarter despite the fact you have that tailwind? That's the first question, please.

And then on the non-banking NII, I appreciate you don't necessarily want to give us a precise figure beyond 2024, but that has been a pretty material source of negative surprise, I think, consensus of the last several quarters cumulatively and you're now talking about £450 to £500 million for this year. I think you referenced two dynamics in there.

Firstly, business growth, which we can all try to take a view on. And secondly, the impact of the higher level of rates. On that second component, how much of a refinancing impact do you still have to come through here in terms of the quarter over quarter lumpiness that we've been seeing, how many of the funding bonds that you allocate into that non-banking NII bracket are still to roll and how much of an impact will that bit have, because presumably that's reasonably foreseeable even if the business growth aspect is less easy to anticipate?

So just keen to understand whether we've now hit a level on rates and therefore if policy rates fall into 2025, that aspect of it would actually start to work in your favour or whether we're still waiting for a large volume of low yielding funding positions to churn into the new rate environment. Thank you.

William Chalmers
Yeah, thanks Chris. Again, two questions there and I'll take them in turn. On net interest margin, in respect of Q2. As you know, we went down from 298 to 295 basis points in Q1, a drop of three basis points, a lot less than we saw in Q4. When we look forward, your question was specifically around the Bank of England levy.

As you point out, we have got a very modest benefit from the Bank of England levy change in respect of net interest income in quarter one. So very little benefit in quarter one from the Bank of England net interest income effect and the changing of the charging structure. That will come into play a little bit more in Q2 and then it assumes a run rate in Q2 and beyond Q3 and Q4; there is approximate P&L neutrality during the year and complete P&L neutrality over the course of 12 months, just to be very clear.

That does lean favourably into net interest margin over the course of quarter two. Having said that, there are other factors that play within quarter two. I've talked about deposit churn, I've talked about mortgage refinancing. I talked in my script earlier on about the hedge being a touch weaker in Q2 off the back of maturities and pre-hedges.

And so overall, our guidance for net interest margin remains very much as it was, Chris, which is greater than 290 basis points over the course of the year, turning into a positive direction at year-end. We have very strong conviction in that off the back of the developments that we're seeing across the book in terms of the deposits, in terms of mortgages, and in the context of structural hedge viewed in the year as a whole.

But when you look at quarter two, as I mentioned in some of the comments that I made earlier on, it's probably a touch too early, for us at least, to see stability in the margin in Q2, and we'll just see how that fares in line with rates, customer activity and the like.

Your second question, Chris, on non-banking net interest income, we end where we started. We, again, acknowledge the fact that non-banking net interest income has gone up £25 million, but it's worth putting that in context as I did earlier on. The increase in that context is about driving growth within the business. And so an increase in non-banking interest income, at least the extent to which it relates to growth in the business is a good thing to be clear. It's driving other operating income growth across the four business areas that I mentioned - insurance, commercial, transportation, LDC and so forth.

I've given the extra guidance today to say that we are looking at somewhere in the £450 to £500 million range, hopefully to be helpful in that respect. There is behind that charge, a complex of different terms as I indicated for the different types of assets. Commercial for example is typically more or less an overnight charge, whereas motor is often a three, to three and a half year charge. And so there's a lot of information that would be required to really model that and hence the guidance from a top down perspective that we're giving you.

Your question then, Chris, is how does it develop? I think your thesis is approximately right. That is to say, as we move forward, the growth component does not drop out. It continues to drive non-banking net interest income and that's a good thing.

Having said that, the driver from rates increases, that should start to drop out. And it should start to drop out not during 2024, but it should start to drop out from future periods thereafter. And therefore that element, at least, eases up and the growth very much remains within the picture, consistent with our strategic objectives to drive growth within the business as a whole, and in this context, particularly in the context of other operating income. So I hope that's helpful, Chris.

Christopher Cant
Thank you.

William Chalmers
So I think we're going to bring the session to a close now. We've gone over a little bit, but thank you very much indeed for the questions and indeed for the interest. There are a couple of questions that I think were left on the line, so apologies to not get into those, but IR will make sure that they contact the analysts and individuals concerned. Again, this concludes the Q&A session today. Thanks once again to everybody for joining the presentation. I want to hand back to the operator to close the call.

End.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward-looking statements. 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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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