

# Lloyds Banking Group Plc

## 4Q not too bad

Earnings Review

### Key takeaways

- 4Q numbers were disappointing in some respects but Lloyds still delivers relatively respectable returns this quarter.
- GBP450m charge vs the Motor Finance debacle which hangs over spreads - offset by an unexpected loan provision reversal in 4Q
- We see continued margin, revenue and cost pressures and the outlook longer term is for much lower CET1 too.

### Motor Finance charge in 4Q

Lloyds reported pre-tax profit of £1.8bn, -4.5% on the prior quarter. The numbers were not too bad, in our view, but did miss expectations across lines. There is a £450m charge against the Motor Finance debacle in the numbers, although this is very much a provisional charge – which means this will likely hang over the credit until we get greater clarity. In 4Q, margins continued to decline (and missed estimates), there was a large unexpected loan provision write-back, so positive for the P&L and offsetting the impact of the Motor Finance charge. Guidance for 2024 sees the NIM to decline even further, a marginal increase in costs and flat normalised provisions. There's a £2bn buyback too (expected) and longer-term the bank guides a much lower level of CET1. Overall, we see this report as neutral for spreads this morning. We have Sell Protection on Lloyds SLA at +69bps.

### 4Q operating profit was weak

Operating profit fell 21% on our numbers to £1.7bn, mostly owing to costs. Guidance is for a more subdued cost increase next year of ~2%. We are mindful of the depletion of the NIM – guided to 290bps next year, below consensus, even lower than the 4Q NIM of 2.98%. It was 3.11% for the FY on an essentially flat loan book. The provisions writeback in 4Q referred to a single case – without it, the bank says that its provisioning rate would have been 29bps, closer to guidance. The bank reports a very mild deterioration in asset quality although this isn't apparent from the main numbers (NPLs and Stage 2 are both down, in line with revised economic forecasts). Lloyds announced another share buyback of £2bn and guided that its CET1 will be 13.5% in 2024. The ambition is to reduce it to 13% by 2026. The bank announced £15bn of wholesale funding this year without giving specifics.

22 February 2024

High Grade Credit  
United Kingdom  
Banks

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Timestamp: 22 February 2024 04:07AM EST

## Valuation & risk

### Lloyds Banking Group (LLOYDS)

Lloyds' credit generally trades at the tight end of the range and we find we prefer alternatives. We do not necessarily dispute the consensus view that the bank is positioned at the lower end of the risk spectrum. However, we do think that the bank will face some headwinds going forward - notably from the UK consumer, where Lloyds is highly exposed when compared with peers and from its structural hedge. Opco CDS technicals remains supportive, however, particularly in sub CDS. We have a Buy Protection on the Lloyds senior holdco CDS. Although off the tights, nevertheless the CDS is still trading at the tight end of the 12M range.

Upside risks: smaller than anticipated Brexit risks - Lloyds has above average exposure to the UK consumer. Downside risks: Covid-19 risks, further legacy costs, a rapid deterioration in asset quality and greater NIM pressure owing to competition in the mortgage market.

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## Lloyds Bank PLC / LLOYDS

	Amt		Ratings			Yield	Spread
Security		Maturity date	Moody's/S&P/Fitch	Price	Price date	(%)	(Govt+bps)
Subordinated, EUR, Y5:CDS					22-Feb-2024		94
Senior Unsecured, EUR, Y5:CDS					22-Feb-2024		48

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

## Lloyds Banking Group Plc / LLOYDS

	Amt		Ratings			Yield	Spread
Security		Maturity date	Moody's/S&P/Fitch	Price	Price date	(%)	(Govt+bps)
6.375, Junior Subordinated, EUR, 2049:B	750	27-JUN-2049	Baa3/BB-/BBB-	97.18	22-Feb-2024	7.71	419
7.625, Junior Subordinated, GBP, 2049:B	1,494	29-DEC-2049	WR/BB-/WD	100.21	22-Feb-2024	5.12	49
7.875, Junior Subordinated, GBP, 2049:B	750	29-DEC-2049	Baa3/BB-/BBB-	95.90	21-Feb-2024	8.80	430
7.5, Junior Subordinated, USD, 2049:B	1,675	30-APR-2049	Baa3/BB-/BBB-	99.13	21-Feb-2024	8.80	444
4.65, Subordinated, USD, 2026:B	1,500	24-MAR-2026	Baa1/BBB-/BBB+	98.04	21-Feb-2024	5.66	100
0.451, Senior, EUR, 2024:B		21-JUN-2024	A3/BBB+/A	100.22	22-Feb-2024	4.15	
6.657, Tier1, USD, Perp/2049:B	434	19-MAY-2049	Baa3/BB-/BBB-	99.17	22-Feb-2024	6.81	250
1.5, Senior, EUR, 2027:B	1,000	12-SEP-2027	A3/BBB+/A	93.25	21-Feb-2024	3.55	98
1.627, Senior, USD, 2027:B	1,000	11-MAY-2027	A3/BBB+/A	91.70	21-Feb-2024	5.66	103
Subordinated, EUR, Y5:CDS					22-Feb-2024		128
3.75, Senior, USD, 2028:B	1,000	18-MAR-2028	A3/BBB+/A	94.79	21-Feb-2024	5.62	113
5.871, Senior, USD, 2029:B	1,250	06-MAR-2029	A3/BBB+/A	101.13	21-Feb-2024	5.55	116
Senior Unsecured, EUR, Y5:CDS					22-Feb-2024		69

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## Disclosures

## Important Disclosures

## Credit opinion history

## Lloyds Bank PLC / LLOYDS

Security	Date <sup>R1</sup>	Action	Recommendation	Price
Subordinated, EUR, Y5:CDS	31-Jan-2023		Sell Protection	
Senior Unsecured, EUR, Y5:CDS	31-Jan-2023		Neutral	

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B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

## Lloyds Banking Group Plc / LLOYDS

Security	Date <sup>R2</sup>	Action	Recommendation	Price
6.375, Junior Subordinated, EUR, 2049:B	31-Jan-2023		Marketweight	
7.625, Junior Subordinated, GBP, 2049:B	31-Jan-2023		Marketweight	
7.875, Junior Subordinated, GBP, 2049:B	31-Jan-2023		Underweight	
7.5, Junior Subordinated, USD, 2049:B	31-Jan-2023		Marketweight	
4.65, Subordinated, USD, 2026:B	31-Jan-2023		Underweight	
0.451, Senior, EUR, 2024:B	31-Jan-2023		Marketweight	
6.657, Tier1, USD, Perp/2049:B	31-Jan-2023		Underweight	
1.5, Senior, EUR, 2027:B	31-Jan-2023		Underweight	
1.627, Senior, USD, 2027:B	31-Jan-2023		Marketweight	
Subordinated, EUR, Y5:CDS	31-Jan-2023		Buy Protection	
3.75, Senior, USD, 2028:B	31-Jan-2023		Underweight	
5.871, Senior, USD, 2029:B	26-Jul-2023	Initial	Underweight	99.55
Senior Unsecured, EUR, Y5:CDS	31-Jan-2023		Buy Protection	

Table reflects credit opinion history as of previous business day's close.<sup>R2</sup>First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

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**Lloyds Banking Group Plc / LLOYDS**

Security	Date <sup>R2</sup>	Action	Recommendation	Price
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case of CDS, the price shown reflects the spread, on the date of the relevant action.

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R3</sup>	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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