Lloyds Bank Corporate Markets plc

2019 Half-Year Results

Member of the Lloyds Banking Group

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and/or results of the Lloyds Bank Corporate Markets Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Lloyds Bank Corporate Markets Group's or its directors' and/or management's beliefs and expectations, are forward looking 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, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Lloyds Bank Corporate Markets Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBOR to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Lloyds Bank Corporate Markets Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; 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; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Lloyds Bank Corporate Markets Group's or Lloyds Banking Group plc's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Lloyds Bank Corporate Markets Group's or Lloyds Banking Group plc's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Lloyds Bank Corporate Markets Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Lloyds Bank Corporate Markets Group's directors, management or employees including industrial action; changes to the Lloyds Bank Corporate Markets Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Lloyds Bank Corporate Markets Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements.

Except as required by any applicable law or regulation, the forward looking statements contained in this Report are made as of the date hereof, and Lloyds Bank Corporate Markets Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Annual Report to reflect any change in the Lloyds Bank Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this Annual Report do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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FINANCIAL REVIEW

Principal activities

Lloyds Bank Corporate Markets Group plc (LBCM) together with its subsidiaries (the Group) carry out the non-ring fenced banking operations of the Lloyds Banking Group (LBG) and provide a wide range of banking and financial services through branches and offices in the UK and overseas. The Group operates as an integrated business across the UK, the Crown Dependencies, USA, Singapore and Germany and contributes to the financial results of the Commercial Banking Division of LBG.

The Group supports a diverse range of customers and provides a broad range of banking products to help them achieve their financial goals. The Group's revenue is earned through interest and fees on a range of financial services products to commercial clients including loans, deposits, trade and asset finance, debt capital markets and derivatives; and current accounts, savings accounts, mortgages, car finance and personal loans in the retail market in the Crown Dependencies business.

Review of results

During the half year to 30 June 2019, the Group recorded a profit before tax of £157 million compared to £18 million during the same period in 2018 representing a robust performance in challenging market conditions. The uncertainty around Brexit in both the UK and internationally more generally, has resulted in subdued levels of corporate refinancing. The Group has continued to invest in strategic capabilities, particularly within the Islands business serving retail and commercial clients within the Crown Dependencies and also the Markets business. These investments are making good progress in achieving an improved customer and client proposition whilst also creating operational efficiencies.

Note regarding comparative numbers: Relevant business and companies transferred from other parts of LBG during May to December 2018 as part of the ring fencing programme to establish LBCM as the non ring fenced bank of LBG. The comparative period of the six months to 30 June 2018 is therefore not representative of a full six months trading and it is not considered meaningful to comment in detail upon movement between the first half results of 2018 and 2019. Therefore included in this document, where appropriate, is the full year 2018 results as additional comparatives to aid understanding.

Total income was £393 million in the six months to 30 June 2019 comprising of net interest income of £78 million, net fee and commission income of £114 million, net trading income of £156 million and other operating income of £45 million. Operating expenses were £236 million predominantly consisting of management charges relating to the Intra Group agreement paid to LBG and staff costs. Credit quality across the portfolio remains strong and the net estimated credit loss charge to the income statement in the period was less than £1 million. The tax expense was £35 million.

Total assets of the Group at 30 June 2019 were £87,132 million. Within this total are financial assets at fair value through profit or loss of £20,251 million, derivative financial instruments of £16,250 million and financial assets at amortised cost of £32,430 million, including £22,646 million advances to customers. Total liabilities of the Group were £82,982 million at 30 June 2019 including customer deposits of £27,679 million, financial liabilities at fair value through profit or loss of £16,529 million, derivative financial instruments of £15,106 million and debt securities in issue of £14,142 million. Total equity at the half year was £4,150 million.

In July 2019, the Board were pleased to commence issuing debt as part of a Euro Medium Term Note (EMTN) programme. The £10 billion EMTN programme is part of its strategy to create a diversified and sustainable funding plan, and to ensure LBCM continues to support its clients, whilst lowering funding costs.

The Group's common equity tier 1 capital ratio increased to 14.6 per cent (31 December 2018: 13.7 per cent) and the tier 1 capital ratio increased to 18.4 per cent (31 December 2018: 17.5 per cent), largely due to profits for the period. The total capital ratio increased to 21.8 per cent (31 December 2018: 20.9 per cent) reflecting the increase in tier 1 capital.

FINANCIAL REVIEW (continued)

Risk-weighted assets reduced by £172 million, or 0.9 per cent, to £19,696 million at 30 June 2019 compared to £19,868 million at 31 December 2018, with increases in market risk and counterparty credit risk offset by reductions in credit valuation adjustment risk and credit risk, largely due to changes in portfolio mix and a reduction in balances with Lloyds Bank plc.

Capital position as at 30 June 2019

The Group's capital position as at 30 June 2019, applying CRD IV transitional rules and IFRS 9 transitional arrangements, is set out in the following section.

Capital ratios

Capital resources (transitional)	At 30 June 2019 [1] £m	As at 31 Dec 2018 £m
Common equity tier 1		
Shareholders' equity per balance sheet	**3,368**	3,210
Cash flow hedging reserve	**(59)**	(5)
Debit valuation adjustment	**(37)**	(71)
Sub-total	**3,272**	3,134
Less: deductions from common equity tier 1		
Prudent valuation adjustment	**(188)**	(199)
Excess of expected losses over impairment provisions and value adjustments	**(24)**	(20)
Securitisation deductions	**(190)**	(191)
Deferred tax assets	**–**	(1)
Common equity tier 1 capital	**2,870**	2,723
Additional tier 1		
Additional tier 1 instruments	**757**	757
Total tier 1 capital	**3,627**	3,480
Tier 2		
Tier 2 instruments	**674**	672
Total tier 2 capital	**674**	672
Total capital resources	**4,301**	4,152
Risk-weighted assets	**19,696**	19,868
Common equity tier 1 capital ratio	**14.6%**	13.7%
Tier 1 capital ratio	**18.4%**	17.5%
Total capital ratio	**21.8%**	20.9%

[1] Incorporating profits for the period that remain subject to formal verification in accordance with the Capital Requirements Regulation.

FINANCIAL REVIEW (continued)

	As at 30 June 2019 £m	As at 31 Dec 2018 £m
Risk-weighted assets		
Foundation Internal Ratings Based (IRB) Approach	**8,018**	8,287
Retail IRB Approach	**17**	22
Other IRB Approach	**528**	652
IRB Approach	**8,563**	8,961
Standardised Approach	**3,766**	3,929
Credit risk	**12,329**	12,890
Counterparty credit risk	**3,574**	3,389
Contributions to the default fund of a central counterparty	**123**	193
Credit valuation adjustment risk	**298**	397
Operational risk	**1,436**	1,378
Market risk	**1,925**	1,607
Underlying risk-weighted assets	**19,685**	19,854
Threshold risk-weighted assets	**11**	14
Total risk-weighted assets	**19,696**	19,868

PRINCIPAL RISKS AND UNCERTAINTIES

The most significant risks that could impact the LBCM Group's ability to deliver long-term strategic objectives are detailed below. These principal risks and uncertainties are reviewed and reported to the Board Risk Committee regularly.

There is significant uncertainty surrounding both UK and global political and macroeconomic developments. The potential impacts of these external factors have been considered in all principal risks to ensure they are monitored and appropriately mitigated where possible.

As part of the Group's ongoing assessment of the potential implications of the UK leaving the European Union, the LBCM Group continues to consider the potential impact to its customers, colleagues and products in addition to legal, regulatory, tax, financial and capital implications.

The secondary risk categories of Change, Data and Operational Resilience have been elevated to primary risks in the LBCM Risk Management Framework.

Credit risk – The risk that parties with whom the Group has contracted fail to meet their financial obligations (both on and off balance sheet). Observed or anticipated changes in the economic environment could impact profitability due to an increase in delinquency, defaults, write-downs and/or expected credit losses.

Regulatory and legal risk – The risk that the LBCM Group is exposed to fines, censure, legal or enforcement action, civil or criminal proceedings in the courts (or equivalent) and/or the LBCM Group is unable to enforce its rights due to failing to comply with applicable laws (including codes of practice which could have legal implications), regulations, codes of conduct or legal obligations.

Conduct risk – The risk of detriment across the customer lifecycle including: failures in product management, distribution and servicing activities, from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.

Operational risk: Overall – The risk of loss from inadequate or failed internal processes, people, systems or from external events.

Operational risk: Shared Services Model (SSM) – Lloyds Banking Group's chosen Ring-fencing Operating Model introduces residual risk for the LBCM Group in the execution of that model as a Shared Service Recipient. This includes: Internal Service Provision Risk, Business Process Risk (i.e. non-adherence to key processes), Information Security and Cyber Risk and Operational Risk around business resilience, change activity and sourcing.

People risk – The risk that LBCM fails to provide an appropriate colleague and customer centric culture supported by robust reward and well-being policies and processes, effective leadership to manage colleague resources, effective talent and succession management and robust controls to ensure all colleague-related requirements are met.

Capital risk – The risk that we have a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the LBCM Group.

Funding and liquidity risk – The risk that we do not have sufficiently stable and diverse sources of funding or financial resources are insufficient to meet commitments as they fall due.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Governance risk – Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from embedding the requirements arising from the implementation of Ring-Fencing legislation in January 2019 and the continuing evolution of the Senior Manager and Certification Regime (SM&CR).

Market risk – The risk that our capital or earnings profile is affected by adverse market rates, in particular changes in interest and foreign exchange rates (and their volatilities), inflation rates, commodity prices and credit spreads through activity in the banking and markets businesses.

Model risk – The risk of financial loss, regulatory censure, reputational damage or customer detriment from deficiencies in developing, applying and operating models and rating systems.

Climate change – The risks associated with climate change are physical risks arising from climate and weather-related events and transition risks, which are the financial risks resulting from the process of adjustment towards a lower carbon economy.

Data risk – The risk of LBCM failing to effectively govern, manage, and control its data (including data processed by third party Suppliers) leading to unethical decisions, poor customer outcomes, loss of value to LBCM and mistrust.

Operational resilience risk – The risk that LBCM fails to design resilience into business operations, underlying infrastructure and controls (people, process, technical) to withstand external or internal events that could impact the continuity of operations or alternatively the failure to respond to events in a way which meets stakeholder expectations and needs when the continuity of operations is compromised.

Change/execution risk – The risk that in delivering its change agenda LBCM fails to ensure compliance with laws and regulation, maintain effective customer service and availability, resilience and security of our core IT systems, and/or operate within LBCM’s risk appetite.

CONDENSED CONSOLIDATED HALF-YEAR STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Note	**Half-year to 30 June 2019 £m unaudited**	Half-year to 30 June 2018 £m unaudited	Year to 31 Dec 2018 [1] £m audited
Interest and similar income		**407**	27	354
Interest and similar expense		**(329)**	(27)	(251)
Net interest income		**78**	–	103
Fee and commission income		**129**	2	148
Fee and commission expense		**(15)**	(1)	(27)
Net fee and commission income		**114**	1	121
Net trading income		**156**	46	231
Other operating income		**45**	–	–
Other income		**315**	47	352
Total income		**393**	47	455
Operating expenses	2	**(236)**	(29)	(273)
Trading surplus		**157**	18	182
Impairment		**–**	–	8
Profit before tax		**157**	18	190
Tax expense	3	**(35)**	(4)	(30)
Profit for the period		**122**	14	160
Profit attributable to ordinary shareholders		**97**	14	135
Profit attributable to other equity holders		**25**	–	25
Profit for the period		**122**	14	160

[1] Restated, see note 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 June 2019 £m unaudited	Half-year to 30 June 2018 £m unaudited	Year to 31 Dec 2018 [1] £m audited
Profit for the period	**122**	14	160
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:			
Change in fair value	**5**	–	(11)
Tax	**(1)**	–	4
	4	–	(7)
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value	**76**	–	6
Net income statement transfers	**(4)**	–	–
Tax	**(18)**	–	(1)
	54	–	5
Currency translation differences (tax: nil)	**(2)**	–	2
Other comprehensive income for the period, net of tax	**56**	–	–
Total comprehensive income for the period	**178**	14	160
Total comprehensive income attributable to ordinary shareholders	**153**	14	135
Total comprehensive income attributable to other equity holders	**25**	–	25
Total comprehensive income for the period	**178**	14	160

[1] Restated, see note 1.

CONSOLIDATED BALANCE SHEET

	Note	**At 30 June 2019 £m unaudited**	At 31 Dec 2018 £m audited
Assets			
Cash and balances at central banks		**14,578**	14,448
Items in the course of collection from banks		**1**	2
Financial assets at fair value through profit or loss	4	**20,251**	17,171
Derivative financial instruments		**16,250**	15,867
Loans and advances to banks		**4,141**	2,583
Loans and advances to customers		**22,646**	20,684
Debt securities		**109**	132
Due from fellow Lloyds Banking Group undertakings		**5,534**	6,593
Financial assets at amortised cost	5	**32,430**	29,992
Financial assets at fair value through other comprehensive income		**341**	412
Property, plant and equipment		**82**	15
Deferred tax assets		**13**	6
Other assets		**3,186**	558
Total assets		**87,132**	78,471

CONSOLIDATED BALANCE SHEET (continued)

Equity and liabilities	Note	At 30 June 2019 £m unaudited	At 31 Dec 2018 £m audited
Liabilities			
Deposits from banks		**4,142**	3,177
Customer deposits		**27,679**	26,870
Due to fellow Lloyds Banking Group undertakings		**1,535**	1,794
Financial liabilities at fair value through profit or loss		**16,529**	14,008
Derivative financial instruments		**15,106**	14,511
Debt securities in issue	7	**14,142**	12,942
Current tax liabilities		**29**	23
Deferred tax liabilities		**28**	–
Other liabilities		**3,065**	429
Subordinated liabilities		**727**	725
Total liabilities		**82,982**	74,479
Equity			
Share capital		**120**	120
Other reserves		**41**	(15)
Retained earnings		**3,207**	3,105
Shareholders' equity		**3,368**	3,210
Other equity instruments		**782**	782
Total equity		**4,150**	3,992
Total equity and liabilities		**87,132**	78,471

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders					
Half-year to 30 June 2019 unaudited	**Share capital £m**	**Other reserves £m**	**Retained earnings £m**	**Total £m**	**Other equity instruments £m**	**Total £m**
Balance at 1 January 2019	**120**	**(15)**	**3,105**	**3,210**	**782**	**3,992**
Comprehensive income						
Profit for the period	**–**	**–**	**122**	**122**	**–**	**122**
Other comprehensive income						
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:	**–**	**–**	**–**	**–**	**–**	**–**
Debt securities	**–**	**4**	**–**	**4**	**–**	**4**
Movements in cash flow hedging reserve, net of tax	**–**	**54**	**–**	**54**	**–**	**54**
Currency translation differences (tax: nil)	**–**	**(2)**	**–**	**(2)**	**–**	**(2)**
Total other comprehensive income	**–**	**56**	**–**	**56**	**–**	**56**
Total comprehensive income	**–**	**56**	**122**	**178**	**–**	**178**
Transactions with owners						
Distributions on other equity instruments	**–**	**–**	**(25)**	**(25)**	**–**	**(25)**
Other adjustments	**–**	**–**	**5**	**5**	**–**	**5**
Total transactions with owners	**–**	**–**	**(20)**	**(20)**	**–**	**(20)**
Balance at 30 June 2019	**120**	**41**	**3,207**	**3,368**	**782**	**4,150**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders					
Half-year to 30 June 2018 unaudited	Share capital £m	Other reserves £m	Retained earnings £m	Total £m	Other equity instruments £m	Total £m
	20	–	–	20	–	20
Comprehensive income						
Profit for the period	–	–	14	14	–	14
Other comprehensive income						
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:	–	–	–	–	–	–
Debt securities	–	–	–	–	–	–
Movements in cash flow hedging reserve, net of tax	–	–	–	–	–	–
Currency translation differences (tax: nil)	–	–	–	–	–	–
Total other comprehensive income	–	–	–	–	–	–
Total comprehensive income	–	–	14	14	–	14
Transactions with owners						
Issue of ordinary shares	100	–	–	100	–	100
Issue of other equity instruments	–	–	–	–	782	782
Other	–	–	–	–	–	–
Capital contribution received	–	–	1,800	1,800	–	1,800
Total transactions with owners	100	–	1,800	1,900	782	2,682
Balance at 30 June 2018	120	–	1,814	1,934	782	2,716

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year to 31 December 2018 audited	Attributable to equity shareholders Share capital £m	Other reserves £m	Retained earnings £m	Total £m	Other equity instruments £m	Total £m
Balance at 1 January 2018	20	–	–	20	–	20
Comprehensive income						
Profit for the period [1]	–	–	160	160	–	160
Other comprehensive income						
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:	–	–	–	–	–	–
Debt securities	–	(7)	–	(7)	–	(7)
Movements in cash flow hedging reserve, net of tax	–	5	–	5	–	5
Currency translation differences (tax: nil)	–	2	–	2	–	2
Total other comprehensive income	–	–	–	–	–	–
Total comprehensive income/(expense)	–	–	160	160	–	160
Transactions with owners						
Distributions on other equity instruments [1]	–	–	(25)	(25)	–	(25)
Issue of ordinary shares	100	–	–	100	–	100
Issue of other equity instruments	–	–	–	–	782	782
Establishment of foreign currency translation opening reserve	–	(15)	15	–	–	–
Opening reserves adjustment in respect of other transfers	–	–	(20)	(20)	–	(20)
Capital contribution received	–	–	2,975	2,975	–	2,975
Total transactions with owners	100	(15)	2,945	3,030	782	3,812
Balance at 31 December 2018	120	(15)	3,105	3,210	782	3,992

[1] Restated, see note 1.

CONSOLIDATED CASH FLOW STATEMENT

	Half-year to 30 June 2019 £m unaudited	Half-year to 30 June 2018 £m unaudited	Year to 31 Dec 2018 £m audited
Profit before tax	**157**	18	190
Adjustments for:			
Change in operating assets	**(7,082)**	(19,623)	(10,834)
Change in operating liabilities	**8,394**	28,633	34,635
Non-cash and other items [1]	**107**	9	9
Tax paid	**(28)**	–	–
Net cash generated from operating activities	**1,548**	9,037	24,000
Cash flows from investing activities			
Purchase of fixed assets	**(3)**	–	(47)
Proceeds from sale and maturity of fixed assets	**–**	–	4
Acquisition of businesses, net of cash acquired	**–**	(6,569)	(13,042)
Net cash used in investing activities	**(3)**	(6,569)	(13,085)
Cash flows generated from financing activities			
Distributions on other equity instruments	**(25)**	–	(25)
Interest paid on subordinated liabilities [1]	**(16)**	–	(15)
Receipt of capital contribution from parent company	**–**	1,800	2,975
Issue of subordinated liabilities	**–**	696	725
Issue of other equity instruments	**–**	782	782
Issue of ordinary share capital	**–**	100	100
Net cash (used in) generated by financing activities	**(41)**	3,378	4,542
Effect of exchange rate changes on cash and cash equivalents	**1**	1	1
Change in cash and cash equivalents	**1,505**	5,847	15,458
Cash and cash equivalents at beginning of the period	**15,478**	20	20
Cash and cash equivalents at end of the period	**16,983**	5,867	15,478

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

[1] Restated to relfect reallocation from cash flows generated from operating activities to cash flows generated from financing activities.

NOTES

1. Accounting policies, presentation and estimates

These condensed consolidated half-year financial statements as at and for the period to 30 June 2019 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), Interim Financial Reporting as adopted by the European Union and comprise the results of Lloyds Bank Corporate Markets plc (the Bank) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2018 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Copies of the 2018 Annual Report and Accounts are available on the Lloyds Banking Group's website.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position.

Except as noted below, the accounting policies are consistent with those applied by the Group in its 2018 Annual Report and Accounts.

Changes in accounting policy

The Group adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 replaces IAS 17 *Leases* and addresses the classification and measurement of all leases. The Group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however for lessee accounting there is no longer a distinction between finance and operating leases.

As lessee, under IFRS 16, in respect of leased properties previously accounted for as operating leases the Group now recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with leases with a lease term of 12 months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

The adoption of IFRS 16 on 1 January 2019 resulted in the recognition of a right-of-use asset of £70 million and a corresponding liability of £72 million. These are included within property, plant and equipment and other liabilities respectively. There was no impact on shareholders' equity.

Restatement in relation to IAS 12

The Group has also implemented the amendments to IAS 12 *Income Taxes* with effect from 1 January 2019 and as a result tax relief on distributions on other equity instruments, previously taken directly to retained profits, is now reported within tax expense in the income statement. Comparatives have been restated. Adoption of these amendments to IAS 12 has resulted in a reduction in tax expense and an increase in profit for the period in the half-year to 30 June 2019 of £7 million (half-year to 30 June 2018: £nil and year ended 31 December 2018: £7m). There is no impact on total shareholders' equity.

Future accounting developments

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 *Business Combinations* and IAS 1 *Presentation of Financial Statements*). These amendments, which as at 28th August 2019 have not yet been endorsed by the EU, are not expected to have a significant impact on the Group.

1. Accounting policies, presentation and estimates (continued)

Critical accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group's significant judgements, estimates and assumptions are unchanged, compared to those applied at 31 December 2018, except as detailed below.

Allowance for impairment losses (estimate)

At 30 June 2019 the Group's expected credit loss (ECL) allowance was £98 million (31 December 2018: £105 million), of which £95 million (31 December 2018: £102 million) was in respect of drawn balances.

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. The approach to weighting and generating the economic senarios used in the calculation of the Group's ECL allowances is little changed since 31 December 2018. The central scenario reflects the Group's updated base case assumptions used for medium-term planning purposes. Additional model-generated upside, downside and severe downside scenarios are identified to represent a typical scenario from specified points along an estimated loss distribution, with the scenario weightings unchanged since 31 December 2018. The key forward looking UK economic assumptions made by the Group as at 30 June 2019 averaged over a five year period are shown below.

UK Economic assumptions

	Base case %	Upside %	Downside %	Severe downside %
Scenario weighting	**30**	**30**	**30**	**10**
At 30 June 2019				
Interest rate	**1.25**	**2.05**	**0.49**	**0.11**
Unemployment rate	**4.3**	**3.8**	**5.7**	**7.0**
House price growth	**1.5**	**5.2**	**(2.3)**	**(7.4)**
Commercial real estate price growth	**(0.2)**	**1.6**	**(4.9)**	**(9.5)**
At 31 December 2018				
Interest rate	1.25	2.34	1.30	0.71
Unemployment rate	4.5	3.9	5.3	6.9
House price growth	2.5	6.1	(4.8)	(7.5)
Commercial real estate price growth	0.4	5.3	(4.7)	(6.4)

UK Economic assumptions - start to peak

	Base case %	Upside %	Downside %	Severe downside %
At 30 June 2019				
Interest rate	**1.75**	**2.70**	**0.75**	**0.75**
Unemployment rate	**4.7**	**4.5**	**7.0**	**8.1**
House price growth	**7.3**	**28.8**	**(1.6)**	**(2.2)**
Commercial real estate price growth	**(0.6)**	**8.4**	**(1.0)**	**(1.6)**
At 31 December 2018				
Interest rate	1.75	4.00	1.75	1.25
Unemployment rate	4.8	4.3	6.3	8.6
House price growth	13.7	34.9	0.6	(1.6)
Commercial real estate price growth	0.1	26.9	(0.5)	(0.5)

1. Accounting policies, presentation and estimates (continued)

UK Economic assumptions – start to trough

	Base case %	Upside %	Downside %	Severe downside %
At 30 June 2019				
Interest rate	**0.75**	**0.75**	**0.31**	**0.01**
Unemployment rate	**3.8**	**3.4**	**3.8**	**3.9**
House price growth	**(1.1)**	**(0.5)**	**(12.0)**	**(33.2)**
Commercial real estate price growth	**(1.5)**	**0.0**	**(23.8)**	**(40.7)**
At 31 December 2018				
Interest rate	0.75	0.75	0.75	0.25
Unemployment rate	4.1	3.5	4.3	4.2
House price growth	0.4	2.3	(26.5)	(33.5)
Commercial real estate price growth	(0.1)	0.0	(23.8)	(33.8)

The Group's base-case economic scenario has changed little over the year and reflects a broadly stable outlook for the economy. Although there remains considerable uncertainty about the economic consequences of the UK's planned exit from the European Union, the Group considers that at this stage the range of possible outcomes is adequately reflected in its choice and weighting of scenarios. The averages shown above do not fully reflect the peak to trough changes in the stated assumptions over the period.

2. Operating expenses

	Half-year to 30 June 2019 £m	Half-year to 30 June 2018 £m	Year to 31 Dec 2018 £m
Staff costs	**85**	15	78
Management charges	**105**	12	180
Depreciation and amortisation	**10**	–	2
Premises and equipment	**4**	–	9
Other operating expenses [1]	**32**	2	4
Total operating expenses	**236**	29	273

[1] Includes £14m in relation to Germany start up costs of the Lloyds Bank Corporate Markets Wertpapierhandelsbank GMBH.

3. Taxation

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2019 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

An explanation of the relationship between tax expense and accounting profit is set out below:

	Half-year to 30 June 2019 £m	Half-year to 30 June 2018 £m	Year to 31 Dec 2018 £m
Profit before tax	**157**	18	190
Tax thereon at UK corporation tax rate of 19 per cent (2018: 19 per cent)	**(30)**	(3)	(36)
Factors affecting credit:			
Impact of surcharge on banking profits	**(8)**	–	(6)
Non-deductible costs	**(2)**	(1)	(7)
Tax relief on coupons on other equity instruments	**5**		5
Non-taxable income and other deductions	**–**	–	12
Losses on which deferred tax not recognised	**(2)**	–	(2)
Derecognition of losses that arose in previous years	**–**	–	(2)
Differences in overseas tax rates	**3**	–	6
Adjustment in respect of prior years	**(1)**	–	–
Tax charge on profit on ordinary activities	**(35)**	(4)	(30)

4. Financial assets at fair value through profit or loss

	At 30 June 2019 £m	At 31 Dec 2018 £m
Trading assets	**19,967**	17,089
Other financial assets at fair value through profit or loss		
Loans and advances to customers	**203**	3
Debt securities	**61**	59
Treasury bills and other bills	**20**	20
	284	82
Total financial assets at fair value through profit or loss	**20,251**	17,171

5. Financial assets at amortised cost

Half-year to 30 June 2019

(A) Loans and advances to customers

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 January 2019	**20,459**	**23**	**303**	**20,785**
Additions (repayments)	**1,949**	**15**	**(10)**	**1,954**
Transfers to Stage 1	**6**	**(5)**	**(1)**	**–**
Transfers to Stage 2	**(4)**	**4**	**–**	**–**
Transfers to Stage 3	**–**	**(5)**	**5**	**–**
Transfers between stages	**2**	**(6)**	**4**	**–**
Recoveries	**–**	**–**	**1**	**1**
At 30 June 2019	**22,410**	**32**	**298**	**22,740**
Allowance for impairment losses	**(7)**	**(4)**	**(83)**	**(94)**
Total loans and advances to customers	**22,403**	**28**	**215**	**22,646**

(B) Loans and advances to banks

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 January 2019	**2,584**	**–**	**–**	**2,584**
Additions (repayments)	**1,558**	**–**	**–**	**1,558**
At 30 June 2019	**4,142**	**–**	**–**	**4,142**
Allowance for impairment losses	**(1)**	**–**	**–**	**(1)**
Total loans and advances to banks	**4,141**	**–**	**–**	**4,141**

(C) Debt securities

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 January 2019	**132**	**–**	**–**	**132**
Net decrease in debt securities	**(23)**	**–**	**–**	**(23)**
At 30 June 2019	**109**	**–**	**–**	**109**
Allowance for impairment losses	**–**	**–**	**–**	**–**
Total debt securities	**109**	**–**	**–**	**109**
Due from fellow Lloyds Banking Group undertakings	**5,534**	**–**	**–**	**5,534**
Total financial assets at amortised cost	**32,187**	**28**	**215**	**32,430**

5. Financial assets at amortised cost (continued)

Year ended 31 December 2018

(A) Loans and advances to customers

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 January 2018	–	–	–	–
Acquisitions	13,389	29	319	13,737
Additions (repayments)	7,074	(10)	(17)	7,047
Transfers between stages	(4)	4	–	–
Recoveries	–	–	1	1
At 31 December 2018	20,459	23	303	20,785
Allowance for impairment losses	(7)	(2)	(92)	(101)
Total loans and advances to customers	20,452	21	211	20,684

(B) Loans and advances to banks

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 January 2018	–	–	–	–
Acquisitions	1,970	8	–	1,978
Additions (repayments)	614	(8)	–	606
At 31 December 2018	2,584	–	–	2,584
Allowance for impairment losses	(1)	–	–	(1)
Total loans and advances to banks	2,583	–	–	2,583

(C) Debt securities

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 January 2018	–	–	–	–
Acquisitions	160	–	–	160
Net decrease in debt securities	(28)	–	–	(28)
At 31 December 2018	132	–	–	132
Allowance for impairment losses	–	–	–	–
Total debt securities	132	–	–	132
Due from fellow Lloyds Banking Group undertakings	6,593	–	–	6,593
Total financial assets at amortised cost	29,760	21	211	29,992

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at 30 June 2019. Net increases and decreases in balances comprise new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before write-off.

6. Allowance for impairment losses

Half-year to 30 June 2019

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of drawn balances				
Balance at 1 January 2019	8	2	92	102
Exchange and other adjustments	–	2	(10)	(8)
Impact of transfers between stages	–	(1)	1	–
Items charged (credited) to the income statement	–	1	(1)	–
Total charge	–	–	–	–
Recoveries of advances written off in previous years	–	–	1	1
At 30 June 2019	8	4	83	95
In respect of undrawn balances				
Balance at 1 January 2019 and 30 June 2019	3	–	–	3
Total	11	4	83	98
In respect of:				
Loans and advances to banks	1	–	–	1
Loans and advances to customers	7	4	83	94
Debt securities	–	–	–	–
Drawn balances	8	4	83	95
Provisions in relation to loan commitments and financial guarantees	3	–	–	3
Total allowance for impairment losses	11	4	83	98

6. Allowance for impairment losses (continued)

Year-ended 31 December 2018

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
In respect of drawn balances				
Balance at 1 January 2018	–	–	–	–
Acquisitions	8	–	107	115
Impact of transfers between stages	–	–	–	–
Items charged (credited) to the income statement	–	2	(11)	(9)
Total charge	–	2	(11)	(9)
Recoveries of advances written off in previous years	–	–	1	1
Discount unwind	–	–	(5)	(5)
At 31 December 2018	8	2	92	102
In respect of undrawn balances				
Balance at 1 January 2018	–	–	–	–
Acquisitions	2	–	–	2
Impact of transfers between stages	–	–	–	–
Items charged to the income statement	1	–	–	1
Total charge	1	–	–	1
At 31 December 2018	3	–	–	3
Total	11	2	92	105
In respect of:				
Loans and advances to banks	1	–	–	1
Loans and advances to customers	7	2	92	101
Debt securities	–	–	–	–
Drawn balances	8	2	92	102
Provisions in relation to loan commitments and financial guarantees	3	–	–	3
Total allowance for impairment losses	11	2	92	105

6. Allowance for impairment losses (continued)

The Group's income statement charge\(credit) comprises:

	Half-year to 30 June 2019 £m	Year to 31 Dec 2018 £m
Drawn balances	**–**	(9)
Undrawn balances	**–**	1
Total	**–**	(8)

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at 30 June 2019. Net increase and decrease in balances comprise the movements in the expected credit loss as a result of new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before write-off. Consequently, recoveries on assets previously written-off will also occur in Stage 3 only.

7. Debt securities in issue

	At 30 June 2019 £m	Year to 31 Dec 2018 £m
Medium-term notes issued	**208**	45
Certificates of deposit	**6,411**	5,353
Commercial paper	**1,175**	1,162
Amounts due to fellow Lloyds Banking Group undertakings	**6,348**	6,382
Total debt securities in issue	**14,142**	12,942

8. Contingent liabilities and commitments

Legal actions and regulatory matters

During the ordinary course of business the Group is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Contingent liabilities and commitments arising from the banking business

Contingent liabilities	**At 30 June 2019 £m**	At 31 Dec 2018 £m
Acceptances and endorsements	**32**	163
Other:		
Other items serving as direct credit substitutes	**172**	147
Performance bonds and other transaction-related contingencies	**210**	155
	382	302
Total contingent liabilities	**414**	465

Commitments and guarantees	**At 30 June 2019 £m**	At 31 Dec 2018 £m
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	**35**	21
Other commitments and guarantees	**6,995**	7,026
	7,030	7,047
1 year or over original maturity	**9,745**	9,499
Total commitments and guarantees	**16,775**	16,546

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend £16,674 million (31 December 2018: £16,464 million) were irrevocable.

9. Fair values of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine those fair values. Note 32 to the Group's 2018 financial statements describes the definitions of the three levels in the fair value hierarchy.

Valuation control framework
Key elements of the valuation control framework, which covers processes for all levels in the fair value hierarchy including level 3 portfolios, include model validation (incorporating pre-trade and post-trade testing), product implementation review and independent price verification. Formal committees meet quarterly to discuss and approve valuations in more judgemental areas.

Transfers into and out of level 3 portfolios
Transfers out of level 3 portfolios arise when inputs that could have a significant impact on the instrument's valuation become market observable; conversely, transfers into the portfolios arise when observable sources of data cease to be available.

Valuation methodology
For level 2 and level 3 portfolios, there is no significant change to what was disclosed in the Group's 2018 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied to such portfolios.

The table below summarises the carrying values of financial assets and liabilities presented on the Group's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	30 June 2019		31 December 2018	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Financial assets at fair value through profit or loss	**20,251**	**20,251**	17,171	17,171
Derivative financial instruments	**16,250**	**16,250**	15,867	15,867
Loans and advances to banks	**4,141**	**4,131**	2,583	2,583
Loans and advances to customers	**22,646**	**22,645**	20,684	20,701
Debt securities	**109**	**109**	132	127
Due from fellow Lloyds Banking Group undertakings	**5,534**	**5,534**	6,593	6,593
Financial assets at amortised cost	**32,430**	**32,419**	29,992	30,004
Financial assets at fair value through other comprehensive income	**341**	**341**	412	412
Financial liabilities				
Deposits from banks	**4,142**	**4,158**	3,177	3,196
Customer deposits	**27,679**	**27,807**	26,870	26,910
Due to fellow Lloyds Banking Group undertakings	**1,535**	**1,535**	1,794	1,794
Financial liabilities at fair value through profit or loss	**16,529**	**16,529**	14,008	14,008
Derivative financial instruments	**15,106**	**15,106**	14,511	14,511
Debt securities in issue	**14,142**	**13,934**	12,942	12,897
Subordinated liabilities	**727**	**727**	725	725

9. Fair values of financial assets and liabilities (continued)

The carrying amount of the following financial instruments is a reasonable approximation of fair value: cash and balances at central banks, items in the course of collection from banks and items in course of transmission to banks.

The Group manages valuation adjustments for its derivative exposures on a net basis; the Group determines their fair values on the basis of their net exposures. In all other cases, fair values of financial assets and liabilities measured at fair value are determined on the basis of their gross exposures.

The following tables provide an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group's consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
As at 30 June 2019				
Financial assets at fair value through profit or loss				
Loans and advances to customers	**–**	**11,735**	**203**	**11,938**
Loans and advances to banks	**–**	**982**	**–**	**982**
Debt securities	**6,974**	**357**	**–**	**7,331**
Total financial assets at fair value through profit or loss	**6,974**	**13,074**	**203**	**20,251**
Financial assets at fair value through other comprehensive income:				
Debt securities	**–**	**136**	**115**	**251**
Treasury and other bills	**90**	**–**	**–**	**90**
Total financial assets at fair value through other comprehensive income	**90**	**136**	**115**	**341**
Derivative financial instruments	**11**	**15,056**	**1,183**	**16,250**
Total financial assets carried at fair value	**7,075**	**28,266**	**1,501**	**36,842**
As at 31 December 2018				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	–	11,295	3	11,298
Loans and advances to banks	–	612	–	612
Debt securities	4,899	342	–	5,241
Treasury and other bills	20	–	–	20
Total financial assets at fair value through profit or loss	4,919	12,249	3	17,171
Financial assets at fair value through other comprehensive income:				
Debt securities	–	136	194	330
Treasury and other bills	82	–	–	82
Total financial assets at fair value through other comprehensive income	82	136	194	412
Derivative financial instruments	4	14,941	922	15,867
Total financial assets carried at fair value	5,005	27,326	1,119	33,450

9. Fair values of financial assets and liabilities (continued)

Financial liabilities

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2019				
Financial liabilities at fair value through profit or loss:				
Trading liabilities	**2,602**	**13,927**	**–**	**16,529**
Total financial liabilities at fair value through profit or loss	**2,602**	**13,927**	**–**	**16,529**
Derivative financial instruments	**2**	**14,179**	**925**	**15,106**
Total financial liabilities carried at fair value	**2,604**	**28,106**	**925**	**31,635**
At 31 December 2018				
Financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	–	1,062	–	1,062
Trading liabilities	1,397	11,549	–	12,946
Total financial liabilities at fair value through profit or loss	1,397	12,611	–	14,008
Derivative financial instruments	–	13,804	707	14,511
Total financial liabilities carried at fair value	1,397	26,415	707	28,519

Movements in level 3 portfolio

The tables below analyse movements in the level 3 financial assets portfolio.

	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other compre-hensive income £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2019	**3**	**194**	**922**	**1,119**
Exchange and other adjustments	**1**	**–**	**(2)**	**(1)**
Gains (losses) recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**–**	**–**	**251**	**251**
Purchases	**486**	**–**	**2**	**488**
Disposals	**(287)**	**(79)**	**(16)**	**(382)**
Transfers into the level 3 portfolio	**–**	**–**	**28**	**28**
Transfers out of the level 3 portfolio	**–**	**–**	**(2)**	**(2)**
At 30 June 2019	**203**	**115**	**1,183**	**1,501**
Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2019	**–**	**–**	**285**	**285**

9. Fair values of financial assets and liabilities (continued)

Half-year to 30 June 2018	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other comprehensive income £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2018	–	–	–	–
Exchange and other adjustments	1	–	(1)	–
Purchases	–	–	893	893
At 30 June 2018	1	–	892	893
Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2018	–	–	–	–

The table below analyses movements in the level 3 financial liabilities portfolio.

	Financial liabilities at fair value through profit or loss £m	**Derivative liabilities £m**	**Total financial liabillities carried at fair value £m**
At 1 January 2019	**–**	**707**	**707**
Exchange and other adjustments	**–**	**–**	**–**
Losses (gains) recognised in the income statement	**–**	**197**	**197**
Additions	**–**	**1**	**1**
Transfers into the level 3 portfolio	**–**	**20**	**20**
At 30 June 2019	**–**	**925**	**925**
Gains (losses) recognised in the income statement within other income relating to those liabilities held at 30 June 2019	**–**	**(241)**	**(241)**

Half-year to 30 June 2018	Financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Total financial liabillities carried at fair value £m
At 1 January 2018	–	–	–
Losses (gains) recognised in the income statement	–	–	–
Additions	–	647	647
At 30 June 2018	–	647	647

9. **Fair values of financial assets and liabilities** (continued)

The tables below set out the effects of reasonably possible alternative assumptions for categories of level 3 financial assets and financial liabilities.

			At 30 June 2019		
				Effect of reasonably possible alternative assumptions[1]	
	Valuation technique(s)	Significant unobservable inputs	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Comparable Pricing	Price	**203**	**6**	**(6)**
			203	**6**	**(6)**
Financial assets at fair value through other comprehensive income					
Asset-backed securities	Comparable Pricing	Price	**115**	**1**	**(1)**
			115	**1**	**(1)**
Derivative financial assets					
Interest rate derivatives	Option pricing model	Inflation Volatility	**342**	**3**	**(3)**
	Option pricing model	Interest Rate Volatility	**841**	**6**	**(1)**
			1,183	**9**	**(4)**
Financial assets carried at fair value			**1,501**	**16**	**(11)**
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Inflation Volatility	**260**	**–**	**–**
	Option pricing model	Interest Rate Volatility	**665**	**–**	**–**
			925	**–**	**–**
Financial liabilities carried at fair value			**925**	**–**	**–**

[1] Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

9. Fair values of financial assets and liabilities (continued)

			At 31 December 2018		
				Effect of reasonably possible alternative assumptions[1]	
	Valuation technique(s)	Significant unobservable inputs	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Comparable Pricing	Price	3	–	–
			3	–	–
Financial assets at fair value through other comprehensive income					
Asset-backed securities	Comparable	Price	121	–	(1)
	Discounted cash	Discount margin	–	–	–
	Comparable	Price	73	3	(3)
			194	3	(4)
Derivative financial assets					
Interest rate derivatives	Option pricing model	Inflation Volatility	311	3	(3)
	Option pricing model	Interest Rate Volatility	611	3	(2)
			922	6	(5)
Financial assets carried at fair value			1,119	9	(9)
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Inflation Volatility	237	–	–
	Option pricing model	Interest Rate Volatility	470	–	–
			707	–	–
Financial liabilities carried at fair value			707	–	–

[1] Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

Unobservable inputs

The nature of the siginificant unobservable inputs affecting the valuation of debt securities and derivatives are unchanged from those described in the Group's 2018 financial statements.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships.

10. Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

The Bank and its subsidiaries have balances due to and from the Bank's parent company, Lloyds Banking Group plc, and fellow Lloyds Banking Group undertakings. These are included on the balance sheet as follows:

	At 30 June 2019 £m	At 31 Dec 2018 £m
Assets		
Due from fellow Lloyds Banking Group undertakings	**5,534**	6,593
Derivative financial instruments	**1,772**	2,936
Financial assets at fair value through profit or loss	**26**	261
	7,332	9,790
Liabilities		
Due to fellow Lloyds Banking Group undertakings	**1,535**	1,794
Derivative financial instruments	**2,781**	3,496
Financial liabilities at fair value through profit or loss	**–**	1,065
Debt securities in issue	**6,348**	6,382
Subordinated liabilities	**727**	725
	11,391	13,462
Other equity instruments		
Additional tier 1 instruments	**782**	782
	782	782

During the half-year to 30 June 2019 the Bank earned £23 million (period to 30 June 2018: £9 million) of interest income and incurred £111 million (period to 30 June 2018: £21 million) of interest expense and £105 million (period to 30 June 2018: £12 million) of management charges on balances and transactions with Lloyds Banking Group plc and fellow Group undertakings.

During the half-year to 30 June 2019 the Group recorded gains of £45 million in respect of the sale of restructured loans of three clients to Lloyds Bank plc, the restructured loans being eligible for inclusion within the ring-fenced bank.

Other related party transactions

Other related party transactions for the half-year to 30 June 2019 are similar in nature to those for the year ended 31 December 2018.

11. Events after the balance sheet date

During July there was £886 million of debt issued as part of the EMTN programme described in the Financial Review.

12. Ultimate parent undertaking

The Bank's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published consolidated accounts for the year to 31 December 2018 and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN and available for download from www.lloydsbankinggroup.com; the accounts of Lloyds Bank Corporate Markets plc also are downloadable via the same link.

13. Other information

The financial information in these condensed consolidated half-year financial statements does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include an emphasis of matter paragraph and did not include a statement under section 498 of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors listed below (being all the directors of Lloyds Bank Corporate Markets plc) confirm that to the best of their knowledge these condensed consolidated half-year financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union, and that the half-year results herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the six months ended 30 June 2019 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2019 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by:

Mark A Grant

Chief Executive
28 August 2019

Lloyds Bank Corporate Markets plc board of directors:

John J Cummins	Non-executive director
Christopher J K Edis	Executive director and Chief Financial Officer
Mark A Grant	Executive director and Chief Executive Officer
Lord Lupton CBE	Non-executive director and Chairman
Andrew J McIntyre	Non-executive director
John S W Owen	Non-executive director
Carla A S Antunes da Silva	Non-executive director
Jennifer L Tippin	Non-executive director

INDEPENDENT REVIEW REPORT TO THE DIRECTORS LLOYDS BANK CORPORATE MARKETS PLC

Report on the condensed consolidated half-year financial statements

Our conclusion:

We have reviewed Lloyds Bank Corporate Markets plc's condensed consolidated half-year financial statements (the "interim financial statements") in the 2019 Half-Year Results of Lloyds Bank Corporate Markets plc ("the Company") for the six month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed:

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2019;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2019 Half-Year Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The 2019 Half-Year Results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the 2019 Half-Year Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. Our report may not be made available to any other party without our prior written consent. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the 2019 Half-Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
28 August 2019