Lloyds Bank plc

Q1 2017 Interim Management Statement

27 April 2017

BASIS OF PRESENTATION

This release covers the results of Lloyds Bank plc (the Bank) together with its subsidiaries (the Group) for the three months ended 31 March 2017.

Unless otherwise stated, income statement commentaries throughout this document compare the three months ended 31 March 2017 to the three months ended 31 March 2016, and the balance sheet analysis compares the Group balance sheet as at 31 March 2017 to the Group balance sheet as at 31 December 2016.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Bank Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Bank 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 the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Lloyds Bank 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 (including low or negative rates), exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Lloyds Bank Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings; 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, the exit by the UK from the European Union (EU) and the potential for one or more 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 cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Lloyds Bank 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 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; the ability to attract and retain senior management and other employees; requirements or limitations on the Lloyds Bank Group or Lloyds Banking Group plc as a result of HM Treasury's investment in Lloyds Banking Group plc; actions or omissions by the Lloyds Bank Group's directors, management or employees including industrial action; changes to the Lloyds Bank Group's post-retirement defined benefit scheme obligations; the provision of banking operations services to TSB Banking Group plc; 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 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 document are made as of today's date, and Lloyds Bank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

REVIEW

As a result of the requirements of the ring-fencing regulations, the Bank expects to sell its subsidiary, Scottish Widows Group Limited, to its ultimate holding company during 2017. This is only an internal reorganisation within the Lloyds Banking Group, but due to the significance of the Scottish Widows entities they have been classified as discontinued operations for the purposes of the Bank's consolidated statutory reporting.

Continuing operations

During the three months to 31 March 2017, the Group recorded a profit before tax from its continuing operations of £1,625 million compared with a profit before tax in the three months to 31 March 2016 of £318 million. The result for the three months to 31 March 2016 included a loss of £993 million arising on transactions related to Lloyds Banking Group's tender offers and redemption of its Enhanced Capital Notes.

Total income increased by £1,316 million, or 45 per cent, to £4,247 million in the three months to 31 March 2017 compared with £2,931 million in the three months to 31 March 2016, comprising a £171 million increase in net interest income and an increase of £1,145 million in other income.

Net interest income was £2,935 million in the three months to 31 March 2017; an increase of £171 million, or 6 per cent compared to £2,764 million in the three months to 31 March 2016. Average interest-earning assets fell but the net interest margin improved following further reductions in wholesale funding and deposit costs.

Other income was £1,145 million higher at £1,312 million in the three months to 31 March 2017 compared to £167 million in the three months to 31 March 2016, largely reflecting the loss of £993 million incurred in 2016 as part of the transactions related to the redemption of the Enhanced Capital Notes; adjusting for this there was an increase of £152 million, or 13 per cent. Net fee and commission income was £70 million lower, in part reflecting volume related increases in fees payable in the card business. Net trading income increased by £157 million to £312 million in the three months to 31 March 2017 compared to £155 million in the three months to 31 March 2016, reflecting fair value gains on interest rate derivatives and foreign exchange hedges in the banking book not mitigated through hedge accounting. Other operating income was £1,058 million higher at £544 million in the three months to 31 March 2017 compared to a deficit of £514 million in the three months to 31 March 2016 as the comparative period included the loss of £993 million referred to above. Excluding this loss, other operating income was £65 million higher, largely due to increased gains on sale of available-for-sale financial assets.

Operating expenses increased by £36 million, or 1 per cent to £2,516 million in the three months to 31 March 2017 compared with £2,480 million in the three months to 31 March 2016. A provision of £200 million was made in respect of conduct issues in the three months to 31 March 2017 compared to a charge of £115 million in the same period in 2016. The charge in 2017 includes the £100 million estimated compensation costs for economic losses, distress and inconvenience caused to the victims of the HBOS Reading fraud and £100 million for Retail conduct matters; the charge in 2016 related to Retail conduct matters. Excluding these charges, operating expenses decreased by £49 million, or 2 per cent to £2,316 million in the three months to 31 March 2017 compared with £2,365 million in the three months to 31 March 2016. Staff costs were £64 million, or 5 per cent, lower at £1,149 million in the three months to 31 March 2017 compared with £1,213 million in the three months to 31 March 2016; annual pay rises have been more than offset by the impact of headcount reductions resulting from the Group's rationalisation programmes. Premises, equipment and other costs were £25 million or 4 per cent, higher at £636 million in the three months to 31 March 2017 compared with £611 million in the three months to 31 March 2016. Depreciation and amortisation costs were £10 million, or 2 per cent, lower at £531 million in the three months to 31 March 2017 compared to £541 million in the three months to 31 March 2016, as higher depreciation on operating lease assets due to increased balances has been offset by reduced charges on intangible assets following certain acquisition-related intangibles becoming fully amortised.

REVIEW (continued)

Impairment losses decreased by £27 million, or 20 per cent, to £106 million in the three months to 31 March 2017 compared with £133 million in the three months to 31 March 2016. Impairment losses in respect of loans and advances to customers were £46 million, or 32 per cent, lower at £98 million in the three months to 31 March 2017 compared with £144 million in the three months to 31 March 2016; this reflects the Group's conservative approach to risk and the benefit of debt sales in the first quarter of 2017. There was a charge of £2 million in respect of undrawn commitments in the three months to 31 March 2017, compared to a credit of £11 million in the three months to 31 March 2016.

In the three months to 31 March 2017, the Group recorded a tax charge of £427 million compared to a tax charge of £61 million in the three months to 31 March 2016. This represents an effective tax rate of 26.3 per cent, higher than the standard UK corporation tax rate of 19.25 per cent, principally as a result of the banking surcharge and restrictions on the deductibility of conduct provisions.

Discontinued operations
The Group's discontinued operations recorded a profit after tax of £75 million in the three months to 31 March 2017 compared to a loss after tax of £4 million in the same period in 2016.

Balance sheet and capital
Total assets were £668 million lower at £830,259 million at 31 March 2017 compared to £830,927 million at 31 December 2016. Cash and balances at central banks were £9,009 million, or 19 per cent, higher at £56,461 million at 31 March 2017 compared to £47,452 million at 31 December 2016 as the Group takes advantage of opportunities for the placing of surplus funds. However, loans and advances to customers were £1,956 million lower at £449,326 million at 31 March 2017 compared to £451,282 million at 31 December 2016; a £2,926 million increase in reverse repurchase agreement balances together with growth in SME lending was more than offset by the impact of corporate customer repayments, the continued reduction in the portfolio of assets which are outside of the Group's risk appetite and lower UK mortgage balances. The assets of the held-for-sale disposal group were £5,332 million, or 3 per cent, lower at £152,862 million at 31 March 2017 compared to £158,194 million at 31 December 2016 as a result of a number of Open-Ended Investment Companies (OEICs) no longer being consolidated following changes in the Group's interest.

Total liabilities were £2,481 million lower at £778,195 million at 31 March 2017 compared to £780,676 million at 31 December 2016. Deposits from banks were £5,502 million, or 35 per cent, higher at £21,192 million at 31 March 2017 compared to £15,690 million at 31 December 2016 as a result of the use of repurchase agreements as a favourable form of funding. Customer deposits were £311 million lower at £415,149 million compared to £415,460 million at 31 December 2016 as a £2,055 million reduction in repurchase agreement balances was offset by strong inflows from Commercial clients. Debt securities in issue were £5,243 million lower at £69,490 million at 31 March 2017 compared to £74,733 million at 31 December 2016 following maturities of some tranches of securitisation notes and covered bonds. Liabilities of the held-for-sale disposal group were £5,170 million, or 3 per cent, lower at £145,768 million at 31 March 2017 compared to £150,938 million at 31 December 2016 reflecting the deconsolidation of a number of OEICs referred to above.

Total equity was £1,813 million, or 4 per cent, higher at £52,064 million at 31 March 2017 compared to £50,251 million at 31 December 2016; this reflected, in particular, retained profit for the period and a positive remeasurement in respect of the Group's defined benefit post-retirement benefit schemes.

The Group's common equity tier 1 capital ratio increased to 16.0 per cent at 31 March 2017 from 15.1 per cent at 31 December 2016, largely driven by retained profit for the period and reserve movements. The tier 1 capital ratio increased to 18.5 per cent from 17.7 per cent at 31 December 2016. The total capital ratio increased to 22.1 per cent from 21.2 per cent at 31 December 2016. Risk-weighted assets reduced by £1,690 million, or 1 per cent, to £214,493 million at 31 March 2017, compared to £216,183 million at 31 December 2016.

REVIEW (continued)

Capital resources (transitional)	**At 31 Mar 2017 £ million**	At 31 Dec 2016 £ million
Common equity tier 1		
Shareholders' equity per balance sheet	**48,088**	46,289
Deconsolidation adjustments[1]	**1,324**	911
Other adjustments	**(4,853)**	(3,795)
Deductions from common equity tier 1	**(10,248)**	(10,861)
Common equity tier 1 capital	**34,311**	32,544
Additional tier 1 instruments	**6,583**	7,061
Deductions from tier 1	**(1,256)**	(1,329)
Total tier 1 capital	**39,638**	38,276
Tier 2 instruments and eligible provisions	**9,083**	9,106
Deductions from tier 2	**(1,319)**	(1,571)
Total capital resources	**47,402**	45,811
Risk-weighted assets		
Credit risk	**165,414**	166,621
Counterparty credit risk	**7,838**	8,419
Contributions to the default fund of a central counterparty	**437**	340
Credit valuation adjustment risk	**1,034**	864
Operational risk	**25,292**	25,292
Market risk	**2,773**	3,147
Threshold risk-weighted assets	**11,705**	11,500
Total risk-weighted assets	**214,493**	216,183
Ratios		
Common equity tier 1 capital ratio	**16.0%**	15.1%
Tier 1 capital ratio	**18.5%**	17.7%
Total capital ratio	**22.1%**	21.2%

[1] Deconsolidation adjustments relate to the deconsolidation of certain Group entities for regulatory capital purposes, being primarily the Group's Insurance business.

STATUTORY CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Three months to 31 Mar 2017 £ million	Three months to 31 Mar 2016 £ million
Interest and similar income	**3,837**	4,279
Interest and similar expense	**(902)**	(1,515)
Net interest income	**2,935**	2,764
Fee and commission income	**731**	734
Fee and commission expense	**(275)**	(208)
Net fee and commission income	**456**	526
Net trading income	**312**	155
Other operating income	**544**	(514)
Other income	**1,312**	167
Total income	**4,247**	2,931
Regulatory provisions	**(200)**	(115)
Other operating expenses	**(2,316)**	(2,365)
Total operating expenses	**(2,516)**	(2,480)
Trading surplus	**1,731**	451
Impairment	**(106)**	(133)
Profit before tax – continuing operations	**1,625**	318
Taxation	**(427)**	(61)
Profit after tax – continuing operations	**1,198**	257
Profit (loss) after tax – discontinued operations	**75**	(4)
Profit for the period	**1,273**	253
Profit attributable to ordinary shareholders	**1,180**	228
Profit attributable to other equity holders[1]	**70**	–
Profit attributable to equity holders	**1,250**	228
Profit attributable to non-controlling interests	**23**	25
Profit for the period	**1,273**	253

[1] The profit after tax attributable to other equity holders of £70 million (three months to 31 March 2016: £nil) is offset in reserves by a tax credit attributable to ordinary shareholders of £19 million (three months to 31 March 2016: £nil).

STATUTORY BALANCE SHEET (UNAUDITED)

	At 31 Mar 2017 £ million	At 31 Dec 2016 £ million
Assets		
Cash and balances at central banks	**56,461**	47,452
Trading and other financial assets at fair value through profit or loss	**52,826**	51,198
Derivative financial instruments	**30,577**	33,859
Loans and receivables:		
Loans and advances to banks	**5,510**	5,583
Loans and advances to customers	**449,326**	451,282
Debt securities	**1,484**	3,397
Due from fellow Lloyds Banking Group undertakings	**6,003**	5,624
	462,323	465,886
Available-for-sale financial assets	**54,330**	56,524
Assets of held-for-sale disposal group	**152,862**	158,194
Other assets	**20,880**	17,814
Total assets	**830,259**	830,927
Liabilities		
Deposits from banks	**21,192**	15,690
Customer deposits	**415,149**	415,460
Deposits from fellow Lloyds Banking Group undertakings	**8,292**	5,444
Trading and other financial liabilities at fair value through profit or loss	**56,362**	54,504
Derivative financial instruments	**30,823**	33,896
Debt securities in issue	**69,490**	74,733
Subordinated liabilities	**15,948**	17,258
Liabilities of held-for-sale disposal group	**145,768**	150,938
Other liabilities	**15,171**	12,753
Total liabilities	**778,195**	780,676
Shareholders' equity	**48,088**	46,289
Other equity interests	**3,217**	3,217
Non-controlling interests	**759**	745
Total equity	**52,064**	50,251
Total equity and liabilities	**830,259**	830,927

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The statement can also be found on the Group’s website – www.lloydsbankinggroup.com

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