Lloyds Bank plc

Q1 2018 Interim Management Statement

25 April 2018

REVIEW OF PERFORMANCE

Income statement

During the three months to 31 March 2018, the Group recorded a profit before tax from its continuing operations of £1,441 million compared with a profit before tax in the three months to 31 March 2017 of £1,625 million.

Total income decreased by £43 million, or 1 per cent, to £4,204 million in the three months to 31 March 2018 compared with £4,247 million in the three months to 31 March 2017, comprising a £268 million increase in net interest income and a decrease of £311 million in other income.

Net interest income was £3,203 million in the three months to 31 March 2018, an increase of £268 million, or 9 per cent compared to £2,935 million in the three months to 31 March 2017 as a result of margin improvements due to the benefit from MBNA and lower deposit and wholesale funding costs, more than offsetting continued asset pricing pressure.

Other income was £311 million lower at £1,001 million in the three months to 31 March 2018 compared to £1,312 million in the three months to 31 March 2017 as a result of lower transaction flows in Commercial Banking, lower trading income reflecting market conditions, and the changes to overdraft charging, which took effect in November, partly offset by continued growth in the Lex Autolease business.

Operating expenses increased by £12 million to £2,528 million in the three months to 31 March 2018 compared with £2,516 million in the three months to 31 March 2017, reflecting MBNA.

Credit quality across the portfolio remains strong. Impairment losses increased by £129 million to £235 million in the three months to 31 March 2018 compared with £106 million in the three months to 31 March 2017, reflecting the expected lower releases and write-backs, the acquisition of MBNA and the non-recurrence of debt sales realised in the first quarter of 2017.

Balance sheet and capital

Total assets were £7,502 million, or 1 per cent lower at £815,528 million at 31 March 2018 compared to £823,030 million at 31 December 2017. Loans and advances to customers were reduced following reclassifications on adoption of IFRS 9 but this has been partly offset by continued growth in targeted segments such as SME and motor finance, while the open mortgage book of £267 billion remained in line with year end 2017. Financial assets held at fair value through other comprehensive income have reduced following sales of some of the Group's gilt holdings and there have been reductions in the level of policyholder assets with the insurance activities.

The Group's common equity tier 1 capital ratio increased to 16.2 per cent[1] at 31 March 2018 from 15.8 per cent at 31 December 2017, largely driven by retained profit for the period. The tier 1 capital ratio increased to 18.4 per cent[1] from 18.3 per cent at 31 December 2017. The total capital ratio remained flat at 21.5 per cent. Risk-weighted assets increased by £284 million to £206,312 million at 31 March 2018, compared to £206,028 million at 31 December 2017.

[1] Incorporating profits, net of foreseeable dividends (unless otherwise stated), for the period that remain subject to formal verification in accordance with the Capital Requirements Regulation.

STATUTORY CONSOLIDATED INCOME STATEMENT (UNAUDITED)	**Quarter ended 31 Mar 2018 £ million**	Quarter ended 31 Mar 2017 £ million
Net interest income	**3,203**	2,935
Other income	**1,001**	1,312
Total income	**4,204**	4,247
Total operating expenses	**(2,528)**	(2,516)
Trading surplus	**1,676**	1,731
Impairment	**(235)**	(106)
Profit before tax – continuing operations	**1,441**	1,625
Taxation	**(439)**	(427)
Profit after tax – continuing operations	**1,002**	1,198
Profit after tax – discontinued operations	**110**	75
Profit for the period	**1,112**	1,273
Profit attributable to ordinary shareholders	**1,033**	1,180
Profit attributable to other equity holders[1]	**67**	70
Profit attributable to equity holders	**1,100**	1,250
Profit attributable to non-controlling interests	**12**	23
Profit for the period	**1,112**	1,273

[1] The profit after tax attributable to other equity holders of £67 million (three months to 31 March 2017: £70 million) is offset in reserves by a tax credit attributable to ordinary shareholders of £18 million (three months to 31 March 2017: £19 million).

STATUTORY BALANCE SHEET (UNAUDITED)	**At 31 Mar 2018 £ million**	At 31 Dec 2017 £ million
Assets		
Cash and balances at central banks	**59,974**	58,521
Financial assets at fair value through profit or loss	**44,087**	45,608
Derivative financial instruments	**22,586**	24,152
Loans and receivables at amortised cost	**478,668**	479,661
Financial assets at fair value through other comprehensive income	**37,834**	
Available-for-sale financial assets		41,717
Assets of held-for-sale disposal group	**149,008**	154,227
Other assets	**23,371**	19,144
Total assets	**815,528**	823,030
Liabilities		
Deposits from banks	**28,939**	28,888
Customer deposits	**416,663**	418,124
Deposits from fellow Lloyds Banking Group undertakings	**17,277**	13,237
Financial liabilities at fair value through profit or loss	**43,763**	50,874
Derivative financial instruments	**23,504**	24,699
Debt securities in issue	**64,397**	61,865
Subordinated liabilities	**14,108**	14,782
Liabilities of held-for-sale disposal group	**141,227**	146,518
Other liabilities	**15,011**	12,849
Total liabilities	**764,889**	771,836
Shareholders' equity	**47,036**	47,598
Other equity interests	**3,217**	3,217
Non-controlling interests	**386**	379
Total equity	**50,639**	51,194
Total equity and liabilities	**815,528**	823,030

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 2018.

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 2018. 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.

Unless otherwise stated, income statement commentaries throughout this document compare the three months ended 31 March 2018 to the three months ended 31 March 2017, and the balance sheet analysis compares the Group balance sheet as at 31 March 2018 to the Group balance sheet as at 31 December 2017.

The Group implemented IFRS 9 *Financial Instruments* from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for previous periods has not been restated. The Group has also implemented IFRS 15 *Revenue from Contracts with Customers*; the impact has not been material.

Capital ratios reported as at 31 March 2018 incorporate profits for the quarter, less foreseeable dividends, that remain subject to formal verification in accordance with the Capital Requirements Regulation. All capital ratios at 31 March 2018 reflect the application of IFRS 9 transitional arrangements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and / or results of the 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 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 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; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the 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 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 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 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 Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the 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 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 the 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.

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

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