

Lloyds Bank plc

Q3 2018 Interim Management Statement

25 October 2018

## REVIEW OF PERFORMANCE

As a result of the requirements of the ring-fencing regulations, the Bank sold its subsidiary, Scottish Widows Group Limited, to its ultimate holding company during May 2018; 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. In addition, in May and July 2018, the Bank and its subsidiary, Bank of Scotland plc, sold the element of their commercial banking businesses required to be transferred in order to ensure compliance with the ring-fencing legislation, together with their offshore and US operations, to Lloyds Bank Corporate Markets plc, a fellow Lloyds Banking Group undertaking.

### *Income statement – Continuing operations*

During the nine months to 30 September 2018, the Group recorded a profit before tax from its continuing operations of £3,750 million compared with a profit before tax in the nine months to 30 September 2017 of £4,342 million.

Total income decreased by £240 million, or 2 per cent, to £12,877 million in the nine months to 30 September 2018 compared with £13,117 million in the nine months to 30 September 2017; a £430 million increase in net interest income was more than offset by a decrease of £670 million in other income.

Net interest income was £9,560 million in the nine months to 30 September 2018, an increase of £430 million, or 5 per cent, compared to £9,130 million in the nine months to 30 September 2017 as a result of margin improvements with lower deposit costs more than offsetting continued asset pricing pressure.

Other income was £670 million lower at £3,317 million in the nine months to 30 September 2018 compared to £3,987 million in the nine months to 30 September 2017. Reflecting a £230 million decrease in net fee and commission income, in part due to a lower level of current account fees as a result of changes to overdraft charging announced in July 2017, which took effect in November, the transfer of the Group's venture capital businesses in the last quarter of 2017 and a loss of £105 million in 2018 on the sale of the Group's Irish residential mortgage portfolio.

Operating expenses increased by £84 million, or 1 per cent, to £8,405 million in the nine months to 30 September 2018 compared with £8,321 million in the nine months to 30 September 2017. There was a £324 million reduction in regulatory provisions but this was more than offset by a £408 million increase in other operating expenses. The charge in respect of regulatory provisions was £887 million compared to £1,211 million in the nine months to 30 September 2017 and comprised a charge of £546 million in respect of payment protection insurance and £341 million in respect of other conduct issues. Other operating expenses were £408 million higher at £7,518 million in the nine months to 30 September 2018 compared to £7,110 million in the nine months to 30 September 2017 reflecting incremental costs of £79 million in MBNA and an increased level of staff, restructuring and other costs.

Credit quality across the portfolio remains strong with no deterioration in credit risk. Impairment losses increased by £268 million to £722 million in the nine months to 30 September 2018 compared with £454 million in the nine months to 30 September 2017, reflecting the expected lower write-backs and releases and the acquisition of MBNA.

### *Income statement – Discontinued operations*

The Group sold the Scottish Widows Group to its ultimate holding company, Lloyds Banking Group plc, at the beginning of May 2018 and so the results of discontinued operations reflect four months of trading compared to a full nine months in the period to 30 September 2017; a trading surplus of £370 million compared to £613 million for the nine months to 30 September 2017. The Group realised a profit of £1,010 million on the sale of Scottish Widows Group, which is reported as part of discontinued operations.

**REVIEW OF PERFORMANCE** (continued)*Balance sheet and capital*

Total assets were £190,558 million lower at £632,472 million at 30 September 2018 compared to £823,030 million at 31 December 2017, principally due to the sale of the Group's insurance activities and the transfer of certain financial instruments following the establishment of the Lloyds Banking Group's non-ring fenced bank, Lloyds Bank Corporate Markets plc. However within loans and advances to customers there has been underlying growth in targeted segments such as SME and motor finance, while the balances on the open mortgage book are in line with the start of the year. Financial assets held at fair value through other comprehensive income have reduced following sales of the Group's gilt holdings as part of a rebalancing of the Group's liquid asset portfolio.

In May 2018, Standard & Poor's upgraded Lloyds Bank plc's long-term credit rating by one notch to 'A+'.

Total equity has decreased by £12,429 million from £51,194 million at 31 December 2017 to £38,765 million at 30 September 2018, principally due to dividends paid of £11,058 million and a capital repayment of £2,975 million as the Group restructures its capital following the sale of businesses as part of the Lloyds Banking Group's programme for compliance with the ring-fencing legislation.

The Group's common equity tier 1 capital ratio reduced to 15.1 per cent<sup>1</sup> at 30 September 2018 from 15.8 per cent at 31 December 2017, largely as a result of dividends paid to the parent company (Lloyds Banking Group plc) during the period. The tier 1 capital ratio reduced to 18.0 per cent<sup>1</sup> from 18.3 per cent at 31 December 2017. The total capital ratio increased to 22.0 per cent<sup>1</sup> from 21.5 per cent at 31 December 2017. Risk-weighted assets reduced by £26,951 million to £179,077 million at 30 September 2018, compared to £206,028 million at 31 December 2017 predominantly as a result of ring-fencing related restructuring activities that have resulted in the transfer of assets to other subsidiaries of Lloyds Banking Group plc.

<sup>1</sup> Incorporating profits, net of foreseeable dividends, for the period 1 July 2018 to 30 September 2018, that remain subject to formal verification in accordance with the Capital Requirements Regulation.

## CONSOLIDATED INCOME STATEMENT

	Nine months ended 30 Sept 2018 £million (unaudited)	Nine months ended 30 Sept 2017 £million (unaudited)
Net interest income	9,560	9,130
Other income	3,317	3,987
Total income	12,877	13,117
Total operating expenses	(8,405)	(8,321)
Trading surplus	4,472	4,796
Impairment	(722)	(454)
<b>Profit before tax – continuing operations</b>	<b>3,750</b>	<b>4,342</b>
Taxation	(1,105)	(1,304)
Profit after tax – continuing operations	2,645	3,038
Profit after tax – discontinued operations	1,314	521
<b>Profit for the period</b>	<b>3,959</b>	<b>3,559</b>
Profit attributable to ordinary shareholders	3,719	3,295
Profit attributable to other equity holders <sup>1</sup>	205	205
Profit attributable to equity holders	3,924	3,500
Profit attributable to non-controlling interests	35	59
<b>Profit for the period</b>	<b>3,959</b>	<b>3,559</b>

See basis of presentation on page 5.

<sup>1</sup> The profit after tax attributable to other equity holders of £205 million (nine months to 30 September 2017: £205 million) is offset in reserves by a tax credit attributable to ordinary shareholders of £55 million (nine months to 30 September 2017: £55 million).

## CONSOLIDATED BALANCE SHEET

	At 30 Sept 2018 £million (unaudited)	At 31 Dec 2017 £million (audited)
<b>Assets</b>		
Cash and balances at central banks	56,758	58,521
Financial assets at fair value through profit or loss	28,371	45,608
Derivative financial instruments	14,150	24,152
Loans and receivables at amortised cost	481,051	479,661
Financial assets at fair value through other comprehensive income	29,133	
Available-for-sale financial assets		41,717
Assets of held-for-sale disposal group	–	154,227
Other assets	23,009	19,144
<b>Total assets</b>	<b>632,472</b>	<b>823,030</b>
<b>Liabilities</b>		
Deposits from banks	26,528	28,888
Customer deposits	399,972	418,124
Deposits from fellow Lloyds Banking Group undertakings	25,888	13,237
Financial liabilities at fair value through profit or loss	33,104	50,874
Derivative financial instruments	13,772	24,699
Debt securities in issue	69,799	61,865
Liabilities of held-for-sale disposal group	–	146,518
Other liabilities	11,605	12,849
Subordinated liabilities	13,039	14,782
<b>Total liabilities</b>	<b>593,707</b>	<b>771,836</b>
Shareholders' equity	35,475	47,598
Other equity interests	3,217	3,217
Non-controlling interests	73	379
<b>Total equity</b>	<b>38,765</b>	<b>51,194</b>
<b>Total equity and liabilities</b>	<b>632,472</b>	<b>823,030</b>

See basis of presentation on page 5.

## **BASIS OF PRESENTATION**

This release covers the results of Lloyds Bank plc (the Bank) together with its subsidiaries (the Group) for the nine months ended 30 September 2018.

As a result of the requirements of the ring-fencing regulations, the Bank sold its subsidiary, Scottish Widows Group Limited, to its ultimate holding company during 2018. This was 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 nine months ended 30 September 2018 to the nine months ended 30 September 2017, and the balance sheet analysis compares the Group balance sheet as at 30 September 2018 to the Group balance sheet as at 31 December 2017.

IFRS 9 and IFRS 15: On 1 January 2018, the Group implemented IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". As permitted by IFRS 9 and IFRS 15, comparative information for previous periods has not been restated.

Capital ratios reported as at 30 September 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 30 September 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, practices and 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 and risks 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 contained in this document to reflect any change in the 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 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](http://www.lloydsbankinggroup.com)

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