

Lloyds Bank 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 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; any impact of the transition from IBORs to alternative reference rates; 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 uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit 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; political instability including as a result of any UK general election; 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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FINANCIAL REVIEW

During the half-year to 30 June 2019, the Group recorded a profit before tax of £2,707 million compared with a profit before tax from its continuing operations in the half-year to 30 June 2018 of £2,354 million, an increase of £353 million or 15 per cent. 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 in the comparative figures. The profitability of the Group has also been affected by the sales in May and June 2018 of those elements of its business required to be transferred in order to ensure compliance with ring-fencing legislation, to fellow Lloyds Banking Group undertakings. Comparative figures have not been adjusted for the effect of these sales, impacting comparisons between the two periods.

Total income increased by £101 million, or 1 per cent, to £8,614 million in the half-year to 30 June 2019 compared with £8,513 million in the half-year to 30 June 2018; a £323 million decrease in net interest income was more than offset by an increase of £424 million in other income.

Net interest income was £6,068 million in the half-year to 30 June 2019, a decrease of £323 million, or 5 per cent, compared to £6,391 million in the half-year to 30 June 2018 as a result of both a decrease in net interest margin, with lower deposit costs, and the benefit of increased current account balances offset by continued pressure on asset margins, and lower levels of average interest-earning assets as growth in targeted segments in particular SMEs and UK Motor Finance, was offset by reduced mortgage balances in the closed book and the impact of the business transfers and sale of the Irish mortgage portfolio in the first half of 2018.

Other income was £424 million, or 20 per cent, higher at £2,546 million in the half-year to 30 June 2019 compared to £2,122 million in the half-year to 30 June 2018; decreases in fee and other income following the transfers of businesses were offset by an increased level of recharges to other Lloyds Banking Group entities. During the half-year to 30 June 2019 the Bank realised a profit of £107 million on the sale of certain wealth management business to a fellow Lloyds Banking Group subsidiary and a profit of £16 million on the transfer of private client asset management business to Cazenove Capital.

Operating expenses decreased by £411 million, or 7 per cent, to £5,318 million in the half-year to 30 June 2019 compared with £5,729 million in the half-year to 30 June 2018. There was an £11 million reduction in regulatory provisions and a £400 million decrease in other operating expenses. The charge in respect of regulatory provisions was £767 million compared to £778 million in the half-year to 30 June 2018 and comprised a charge of £649 million in respect of payment protection insurance, largely driven by higher than expected total volume of complaints and associated administration costs given the significant increase in PPI Information Requests received in the second quarter onwards, and £118 million in respect of other conduct issues. Other operating expenses were £400 million, or 8 per cent, lower at £4,551 million in the half-year to 30 June 2019 compared to £4,951 million in the half-year to 30 June 2018 reflecting, in particular, a lower level of restructuring costs following the completion of the ring-fencing programme and the migration of MBNA. During the half-year to 30 June 2019, the Group incurred a charge of £75 million in relation to an onerous contract for the ongoing servicing of wealth management business transferred to a fellow Lloyds Banking Group subsidiary.

Impairment losses increased by £159 million to £589 million in the half-year to 30 June 2019 compared with £430 million in the half-year to 30 June 2018, with the charge in respect of loans and advances to customers increasing by £166 million, or 37 per cent, to £610 million from £444 million in the half-year to 30 June 2018. The increase was driven by a number of factors including aligning credit card provisioning methodologies, lower cash recoveries, slightly weaker used car prices and charges in respect of two corporate cases in Commercial Banking. Overall credit performance in the UK mortgage book remains strong with the average mortgage loan-to-value improving slightly to 42.6 per cent from 44.1 per cent at 31 December 2018.

Total assets were £567 million lower at £592,919 million at 30 June 2019 compared to £593,486 million at 31 December 2018. Loans and advances to customers increased by £8,143 million, to £472,187 million, compared to £464,044 million at 31 December 2018, mainly as a result of an increase of £13,601 million in reverse repurchase agreement balances held for liquidity purposes. Although there was growth in lending to targeted segments, particularly SMEs and UK Motor.

FINANCIAL REVIEW (continued)

Finance, this was more than offset by a reduction in mortgage balances. Property, plant and equipment increased by £1,340 million, or 16 per cent, to £9,855 million compared to £8,515 million at 31 December 2018 following the establishment of a right-of-use asset on the implementation of IFRS 16. These movements were offset by a reduction in financial assets at fair value through profit or loss which were £16,352 million lower at £6,904 million compared to £23,256 million at 31 December 2018 as a result of the run-down of trading book positions following ring-fencing.

Total liabilities were £537 million lower at £552,596 million compared to £553,133 million at 31 December 2018. Deposit from banks were £3,721 million, or 14 per cent, higher at £29,984 million compared to £26,263 million at 31 December 2018 and customer deposits were £2,982 million, or 1 per cent, higher at £394,233 million compared to £391,251 million at 31 December 2018, reflecting both increased repo balances and growth in bank deposits taken on for funding purposes. Customer deposits, excluding repos, were broadly unchanged as growth in retail current accounts and commercial deposits has been offset by reduced retail savings balances. Debt securities in issue were £4,808 million, or 7 per cent, higher at £69,341 million compared to £64,533 million at 31 December 2018 reflecting issuance for funding purposes. Other liabilities were £1,997 million higher at £6,332 million compared to £4,335 million at 31 December 2018 reflecting the lease liability recognised following the implementation of IFRS 16. These movements were offset by a reduction in financial liabilities at fair value through profit or loss which were £9,493 million lower at £8,237 million compared to £17,730 million at 31 December 2018 reflecting the reductions in trading book activity.

Total equity decreased by £30 million from £40,353 million at 31 December 2018 to £40,323 million at 30 June 2019, as the profit for the period of £1,990 million was offset by dividends paid in the period of £2,100 million.

The Group's common equity tier 1 capital ratio reduced to 14.4 per cent (31 December 2018: 14.9 per cent), reflecting the accrual for foreseeable dividends in respect of the first half of 2019, movements in the defined benefit pension schemes and an increase in the deductions for intangible assets and deferred tax assets, partially offset by profits for the period. The tier 1 capital ratio reduced to 17.5 per cent (31 December 2018: 18.3 per cent) primarily reflecting the reduction in common equity tier 1 capital and the annual reduction in the transitional limit applied to grandfathered AT1 capital. The total capital ratio reduced to 21.0 per cent (31 December 2018: 22.4 per cent), largely reflecting the reduction in tier 1 capital, the annual reduction in the transitional limit applied to grandfathered tier 2 capital and amortisation on dated tier 2 instruments.

Risk-weighted assets reduced by £609 million, or 0.3 per cent, to £173,782 million at 30 June 2019, compared to £174,391 million at 31 December 2018, reflecting reductions in counterparty credit risk, market risk and operational risk, partially offset by a net increase in credit risk, largely driven by the implementation of IFRS 16 and mortgage model changes.

The Group's UK leverage ratio reduced to 4.8 per cent (31 December 2018: 5.0 per cent), largely reflecting the reduction in common equity tier 1 capital.

Capital position 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.

FINANCIAL REVIEW (continued)**Capital ratios**

| | At 30 June 2019 £m | At 31 Dec 2018 £m |
|---|-----------------------------|----------------------------|
| Capital resources (transitional) | | |
| Common equity tier 1 | | |
| Shareholders' equity per balance sheet | 37,026 | 37,063 |
| Adjustment to retained earnings for foreseeable dividends | (2,000) | (2,100) |
| Adjustment for own credit | (59) | (280) |
| Cash flow hedging reserve | (1,729) | (1,110) |
| Other adjustments | 395 | 468 |
| | 33,633 | 34,041 |
| Less: deductions from common equity tier 1 | | |
| Goodwill and other intangible assets | (3,841) | (3,628) |
| Prudent valuation adjustment | (255) | (253) |
| Removal of defined benefit pension surplus | (1,184) | (994) |
| Deferred tax assets | (3,271) | (3,106) |
| Common equity tier 1 capital | 25,082 | 26,060 |
| Additional tier 1 | | |
| Additional tier 1 instruments | 5,257 | 5,937 |
| Total tier 1 capital | 30,339 | 31,997 |
| Tier 2 | | |
| Tier 2 instruments | 6,507 | 7,096 |
| Other adjustments | (389) | (9) |
| Total tier 2 capital | 6,118 | 7,087 |
| Total capital resources | 36,457 | 39,084 |
| Risk-weighted assets | 173,782 | 174,391 |
| Common equity tier 1 capital ratio¹ | 14.4% | 14.9% |
| Tier 1 capital ratio¹ | 17.5% | 18.3% |
| Total capital ratio¹ | 21.0% | 22.4% |

¹ Reflecting the full impact of IFRS 9 at 30 June 2019, without the application of transitional arrangements, the Group's common equity tier 1 capital ratio would be 14.1 per cent, the tier 1 capital ratio would be 17.2 per cent and the total capital ratio would be 20.9 per cent.

FINANCIAL REVIEW (continued)

| | At 30 June 2019 £m | At 31 Dec 2018 £m |
|--|-----------------------------|----------------------------|
| Risk-weighted assets | | |
| Foundation Internal Ratings Based (IRB) Approach | 48,334 | 52,268 |
| Retail IRB Approach | 62,202 | 59,500 |
| Other IRB Approach | 11,599 | 9,609 |
| IRB Approach | 122,135 | 121,377 |
| Standardised Approach | 22,950 | 23,274 |
| Credit risk | 145,085 | 144,651 |
| Counterparty credit risk | 2,183 | 2,328 |
| Contributions to the default funds of central counterparties | 155 | 637 |
| Credit valuation adjustment risk | 376 | 305 |
| Operational risk | 24,096 | 24,558 |
| Market risk | 230 | 470 |
| Underlying risk-weighted assets | 172,125 | 172,949 |
| Threshold risk-weighted assets | 1,657 | 1,442 |
| Total risk-weighted assets | 173,782 | 174,391 |

FINANCIAL REVIEW (continued)

| | Fully Loaded | |
|--|-----------------------------------|----------------------------------|
| | At 30 June 2019 £m | At 31 Dec 2018 £m |
| Leverage ratio | | |
| Total tier 1 capital for leverage ratio | | |
| Common equity tier 1 capital | 25,082 | 26,060 |
| Additional tier 1 capital | 3,217 | 3,217 |
| Total tier 1 capital | 28,299 | 29,277 |
| Exposure measure | | |
| Statutory balance sheet assets | | |
| Derivative financial instruments | 10,748 | 11,293 |
| Securities financing transactions (SFTs) | 53,787 | 53,467 |
| Loans and advances and other assets | 528,384 | 528,726 |
| Total assets | 592,919 | 593,486 |
| Qualifying central bank claims | (38,605) | (35,512) |
| Deconsolidation adjustments and intragroup exemptions | | |
| Derivative financial instruments | 11 | (2,557) |
| Securities financing transactions (SFTs) | - | (1,434) |
| Loans and advances and other assets | (1,539) | (1,921) |
| Total deconsolidation adjustments and intragroup exemptions | (1,528) | (5,912) |
| Derivatives adjustments | | |
| Adjustments for regulatory netting | (2,861) | (2,994) |
| Adjustments for cash collateral | (7,760) | (6,018) |
| Net written credit protection | 152 | - |
| Regulatory potential future exposure | 9,071 | 8,956 |
| Total derivatives adjustments | (1,398) | (56) |
| SFT adjustments | (597) | (606) |
| Off-balance sheet items | 48,060 | 47,863 |
| Regulatory deductions and other adjustments | (7,956) | (7,872) |
| Total exposure measure | 590,895 | 591,391 |
| UK leverage ratio¹ | 4.8% | 5.0% |
| CRD IV leverage exposure measure | 629,500 | 626,903 |
| CRD IV leverage ratio | 4.5% | 4.7% |

¹ Reflecting the full impact of IFRS 9 at 30 June 2019, without the application of transitional arrangements, the Group's UK leverage ratio would be 4.7 per cent.

A copy of the half-year Pillar 3 disclosures will be available to view from August at:
<https://www.lloydsbankinggroup.com/investors/financial-performance/>

PRINCIPAL RISKS AND UNCERTAINTIES

Our principal risks and uncertainties are reviewed and reported regularly as advised in our 2018 Annual Report and Accounts. Following a review of the Group's risk categories, change and execution risk, data risk and operational resilience risk were elevated from secondary to primary risk categories in the Group's Risk Management Framework.

The external risks faced by the Group may impact the success of delivering against the Group's long term strategic objectives. They include but are not limited to global macro-economic conditions, ongoing political uncertainty, regulatory developments and market liquidity.

These changes are being embedded during 2019 and are now reflected within the Group's principal risks as below:

Credit risk – The risk that parties with whom the Group has contracted fail to meet their financial obligations (both on and off balance sheet). For example 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 of financial penalties, regulatory censure, criminal or civil enforcement action or customer detriment as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.

Conduct risk – The risk of customer 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 – Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

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

Funding and liquidity risk – Funding risk is the risk that we do not have sufficiently stable and diverse sources of funding. Liquidity risk is the risk that we have insufficient financial resources to meet our commitments as they fall due.

Governance risk – The risk that the Group's organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

Market risk – The risk that the Group's capital or earnings profile is affected by adverse market rates. The principal market risks are interest rates and credit spreads in the banking business and equity, credit spreads and longevity risk in the Group's defined benefit pension schemes.

Model risk – The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of models and rating systems.

Data risk - The risk of the Group failing to effectively govern, manage, and protect its data (or the data shared with third party suppliers) impacting the Group's agility, accuracy, access and availability of data, ultimately leading to poor customer outcomes, loss of value to the Group and mistrust from regulators.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

Change/execution risk – The risk that in delivering its change agenda, the Group fails to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within the Group's risk appetite.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)
CONSOLIDATED INCOME STATEMENT

| | | Half-year to 30 June 2019 £m | Half-year to 30 June 2018 ¹ £m |
|--|------|---------------------------------------|--|
| | Note | | |
| Interest and similar income | | 8,016 | 8,045 |
| Interest and similar expense | | <u>(1,948)</u> | <u>(1,654)</u> |
| Net interest income | | 6,068 | 6,391 |
| Fee and commission income | | <u>1,193</u> | <u>1,290</u> |
| Fee and commission expense | | <u>(531)</u> | <u>(538)</u> |
| Net fee and commission income | 3 | 662 | 752 |
| Net trading income | | 296 | 184 |
| Other operating income | | <u>1,588</u> | <u>1,186</u> |
| Other income | | <u>2,546</u> | <u>2,122</u> |
| Total income | | 8,614 | 8,513 |
| Regulatory provisions | | <u>(767)</u> | <u>(778)</u> |
| Other operating expenses | | <u>(4,551)</u> | <u>(4,951)</u> |
| Total operating expenses | 4 | <u>(5,318)</u> | <u>(5,729)</u> |
| Trading surplus | | 3,296 | 2,784 |
| Impairment | 5 | <u>(589)</u> | <u>(430)</u> |
| Profit before tax – continuing operations | | 2,707 | 2,354 |
| Tax expense | 6 | <u>(717)</u> | <u>(668)</u> |
| Profit after tax – continuing operations | | 1,990 | 1,686 |
| Profit after tax – discontinued operations | 10 | <u>–</u> | <u>1,314</u> |
| Profit for the period | | <u>1,990</u> | <u>3,000</u> |
| Profit attributable to ordinary shareholders | | 1,830 | 2,842 |
| Profit attributable to other equity shareholders | | <u>139</u> | <u>135</u> |
| Profit attributable to equity holders | | 1,969 | 2,977 |
| Profit attributable to non-controlling interests | | <u>21</u> | <u>23</u> |
| Profit for the period | | <u>1,990</u> | <u>3,000</u> |

¹ Restated, see note 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| | Half-year to 30 June 2019 £m | Half-year to 30 June 2018 ¹ £m |
|---|---------------------------------------|--|
| Profit for the period | 1,990 | 3,000 |
| Other comprehensive income: | | |
| Items that will not subsequently be reclassified to profit or loss: | | |
| Post-retirement defined benefit scheme remeasurements: | | |
| Remeasurements before tax | (173) | 908 |
| Tax | 44 | (206) |
| | (129) | 702 |
| Movements in revaluation reserve in respect of equity shares held at fair value through other comprehensive income: | | |
| Change in fair value | – | (97) |
| Tax | 12 | 22 |
| | 12 | (75) |
| Gains and losses attributable to own credit risk: | | |
| Gains and (losses) before tax | (303) | 167 |
| Tax | 82 | (45) |
| | (221) | 122 |
| 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 | (55) | 110 |
| Income statement transfers in respect of disposals | (177) | (206) |
| Tax | 69 | 46 |
| | (163) | (50) |
| Movement in cash flow hedging reserve: | | |
| Effective portion of changes in fair value | 1,078 | (286) |
| Net income statement transfers | (231) | (423) |
| Tax | (228) | 194 |
| | 619 | (515) |
| Currency translation differences (tax: nil) | (5) | (2) |
| Other comprehensive income for the period, net of tax | 113 | 182 |
| Total comprehensive income for the period | 2,103 | 3,182 |
| Total comprehensive income attributable to ordinary shareholders arising from continuing operations | 1,943 | 1,680 |
| Total comprehensive income attributable to ordinary shareholders arising from discontinued operations | – | 1,344 |
| Total comprehensive income attributable to ordinary shareholders | 1,943 | 3,024 |
| Total comprehensive income attributable to other equity holders | 139 | 135 |
| Total comprehensive income attributable to equity holders | 2,082 | 3,159 |
| Total comprehensive income attributable to non-controlling interests | 21 | 23 |
| Total comprehensive income for the period | 2,103 | 3,182 |

¹ Restated, see note 1.

CONSOLIDATED BALANCE SHEET

| | Note | At 30 June 2019 ¹ (unaudited) £m | At 31 Dec 2018 (audited) £m |
|---|------|---|---|
| Assets | | | |
| Cash and balances at central banks | | 42,712 | 40,213 |
| Items in course of collection from banks | | 692 | 645 |
| Financial assets at fair value through profit or loss | 7 | 6,904 | 23,256 |
| Derivative financial instruments | | 10,748 | 11,293 |
| Loans and advances to banks | | 4,202 | 3,692 |
| Loans and advances to customers | | 472,187 | 464,044 |
| Debt securities | | 5,318 | 5,095 |
| Due from fellow Lloyds Banking Group undertakings | | 1,887 | 1,878 |
| Financial assets at amortised cost | 8 | 483,594 | 474,709 |
| Financial assets at fair value through other comprehensive income | | 26,680 | 24,368 |
| Goodwill | | 474 | 474 |
| Other intangible assets | | 3,589 | 3,322 |
| Property, plant and equipment | | 9,855 | 8,515 |
| Current tax recoverable | | 2 | 1 |
| Deferred tax assets | | 3,076 | 3,216 |
| Retirement benefit assets | 12 | 1,509 | 1,267 |
| Other assets | | 3,084 | 2,207 |
| Total assets | | 592,919 | 593,486 |

¹ Reflects the implementation of IFRS 16, see note 1.

CONSOLIDATED BALANCE SHEET (continued)

| | | At 30 June 2019 ¹ (unaudited) £m | At 31 Dec 2018 (audited) £m |
|--|------|---|---|
| | Note | | |
| Equity and liabilities | | | |
| Liabilities | | | |
| Deposits from banks | | 29,984 | 26,263 |
| Customer deposits | | 394,233 | 391,251 |
| Due to fellow Lloyds Banking Group undertakings | | 17,514 | 19,663 |
| Items in course of transmission to banks | | 467 | 615 |
| Financial liabilities at fair value through profit or loss | | 8,237 | 17,730 |
| Derivative financial instruments | | 9,675 | 10,911 |
| Notes in circulation | | 1,042 | 1,104 |
| Debt securities in issue | 11 | 69,341 | 64,533 |
| Other liabilities | | 6,332 | 4,335 |
| Retirement benefit obligations | 12 | 250 | 245 |
| Current tax liabilities | | 506 | 394 |
| Deferred tax liabilities | | 1 | – |
| Other provisions | | 2,582 | 3,344 |
| Subordinated liabilities | | 12,432 | 12,745 |
| Total liabilities | | 552,596 | 553,133 |
| Equity | | | |
| Share capital | | 1,574 | 1,574 |
| Share premium account | | 600 | 600 |
| Other reserves | | 7,416 | 6,965 |
| Retained profits | | 27,436 | 27,924 |
| Shareholders' equity | | 37,026 | 37,063 |
| Other equity instruments | | 3,217 | 3,217 |
| Total equity excluding non-controlling interests | | 40,243 | 40,280 |
| Non-controlling interests | | 80 | 73 |
| Total equity | | 40,323 | 40,353 |
| Total equity and liabilities | | 592,919 | 593,486 |

¹ Reflects the implementation of IFRS 16, see note 1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| | Attributable to equity shareholders | | | | Other equity instruments £m | Non-controlling interests £m | Total £m |
|--|-------------------------------------|----------------------|------------------------|-------------|--------------------------------|---------------------------------|-------------|
| | Share capital and premium £m | Other reserves £m | Retained profits £m | Total £m | | | |
| Balance at 1 January 2019 | 2,174 | 6,965 | 27,924 | 37,063 | 3,217 | 73 | 40,353 |
| Comprehensive income | | | | | | | |
| Profit for the period | - | - | 1,969 | 1,969 | - | 21 | 1,990 |
| <i>Other comprehensive income</i> | | | | | | | |
| Post-retirement defined benefit scheme remeasurements, net of tax | - | - | (129) | (129) | - | - | (129) |
| Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax: | | | | | | | |
| Debt securities | - | (163) | - | (163) | - | - | (163) |
| Equity shares | - | 12 | - | 12 | - | - | 12 |
| Gains and losses attributable to own credit risk, net of tax | - | - | (221) | (221) | - | - | (221) |
| Movements in cash flow hedging reserve, net of tax | - | 619 | - | 619 | - | - | 619 |
| Currency translation differences (tax: nil) | - | (5) | - | (5) | - | - | (5) |
| Total other comprehensive income | - | 463 | (350) | 113 | - | - | 113 |
| Total comprehensive income | - | 463 | 1,619 | 2,082 | - | 21 | 2,103 |
| Transactions with owners | | | | | | | |
| Dividends | - | - | (2,100) | (2,100) | - | - | (2,100) |
| Distributions on other equity instruments | - | - | (139) | (139) | - | - | (139) |
| Capital contributions received | - | - | 123 | 123 | - | - | 123 |
| Return of capital contributions | - | - | (3) | (3) | - | - | (3) |
| Changes in non-controlling interests | - | - | - | - | - | (14) | (14) |
| Total transactions with owners | - | - | (2,119) | (2,119) | - | (14) | (2,133) |
| Realised gains and losses on equity shares held at fair value through other comprehensive income | - | (12) | 12 | - | - | - | - |
| Balance at 30 June 2019 | 2,174 | 7,416 | 27,436 | 37,026 | 3,217 | 80 | 40,323 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

| | Attributable to equity shareholders | | | | Other equity instruments £m | Non-controlling interests £m | Total £m |
|--|-------------------------------------|----------------------|------------------------|-------------|--------------------------------|---------------------------------|-------------|
| | Share capital and premium £m | Other reserves £m | Retained profits £m | Total £m | | | |
| Balance at 1 January 2018 | 2,174 | 7,484 | 36,749 | 46,407 | 3,217 | 379 | 50,003 |
| Comprehensive income | | | | | | | |
| Profit for the period ¹ | - | - | 2,977 | 2,977 | - | 23 | 3,000 |
| <i>Other comprehensive income</i> | | | | | | | |
| Post-retirement defined benefit scheme remeasurements, net of tax | - | - | 702 | 702 | - | - | 702 |
| Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax: | | | | | | | |
| Debt securities | - | (50) | - | (50) | - | - | (50) |
| Equity shares | - | (75) | - | (75) | - | - | (75) |
| Gains and losses attributable to own credit risk, net of tax | - | - | 122 | 122 | - | - | 122 |
| Movements in cash flow hedging reserve, net of tax | - | (515) | - | (515) | - | - | (515) |
| Currency translation differences (tax: nil) | - | (2) | - | (2) | - | - | (2) |
| Total other comprehensive income | - | (642) | 824 | 182 | - | - | 182 |
| Total comprehensive income | - | (642) | 3,801 | 3,159 | - | 23 | 3,182 |
| Transactions with owners | | | | | | | |
| Dividends | - | - | (10,422) | (10,422) | - | (5) | (10,427) |
| Distributions on other equity instruments ¹ | - | - | (135) | (135) | - | - | (135) |
| Capital repayment to parent | - | - | (1,800) | (1,800) | - | - | (1,800) |
| Capital contributions received | - | - | 126 | 126 | - | - | 126 |
| Changes in non-controlling interests | - | - | - | - | - | (305) | (305) |
| Total transactions with owners | - | - | (12,231) | (12,231) | - | (310) | (12,541) |
| Realised gains and losses on equity shares held at fair value through other comprehensive income | - | 141 | (141) | - | - | - | - |
| Balance at 30 June 2018 | 2,174 | 6,983 | 28,178 | 37,335 | 3,217 | 92 | 40,644 |

¹ Restated, see note 1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

| | Attributable to equity shareholders | | | | | | |
|--|-------------------------------------|----------------------|------------------------|-------------|--------------------------------|---------------------------------|-------------|
| | Share capital and premium £m | Other reserves £m | Retained profits £m | Total £m | Other equity instruments £m | Non-controlling interests £m | Total £m |
| Balance at 1 July 2018 | 2,174 | 6,983 | 28,178 | 37,335 | 3,217 | 92 | 40,644 |
| Comprehensive income | | | | | | | |
| Profit for the period ¹ | - | - | 1,808 | 1,808 | - | 12 | 1,820 |
| <i>Other comprehensive income</i> | | | | | | | |
| Post-retirement defined benefit scheme remeasurements, net of tax | - | - | (582) | (582) | - | - | (582) |
| Share of other comprehensive income of associates and joint ventures | - | - | 8 | 8 | - | - | 8 |
| Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax: | | | | | | | |
| Debt securities | - | (134) | - | (134) | - | - | (134) |
| Equity shares | - | (1) | - | (1) | - | - | (1) |
| Gains and losses attributable to own credit risk, net of tax | - | - | 267 | 267 | - | - | 267 |
| Movements in cash flow hedging reserve, net of tax | - | 52 | - | 52 | - | - | 52 |
| Currency translation differences (tax: nil) | - | 95 | - | 95 | - | - | 95 |
| Total other comprehensive income | - | 12 | (307) | (295) | - | - | (295) |
| Total comprehensive income | - | 12 | 1,501 | 1,513 | - | 12 | 1,525 |
| Transactions with owners | | | | | | | |
| Dividends | - | - | (600) | (600) | - | (31) | (631) |
| Distributions on other equity instruments ¹ | - | - | (140) | (140) | - | - | (140) |
| Capital repayment to parent | - | - | (1,175) | (1,175) | - | - | (1,175) |
| Capital contributions received | - | - | 139 | 139 | - | - | 139 |
| Return of capital contributions | - | - | (9) | (9) | - | - | (9) |
| Total transactions with owners | - | - | (1,785) | (1,785) | - | (31) | (1,816) |
| Realised gains and losses on equity shares held at fair value through other comprehensive income | - | (30) | 30 | - | - | - | - |
| Balance at 31 December 2018 | 2,174 | 6,965 | 27,924 | 37,063 | 3,217 | 73 | 40,353 |

¹ Restated, see note 1.

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| | Half-year to 30 June 2019 £m | Half-year to 30 June 2018 £m |
|---|---------------------------------------|---------------------------------------|
| Profit before tax | 2,707 | 3,734 |
| Adjustments for: | | |
| Change in operating assets | 7,634 | (6,945) |
| Change in operating liabilities | (390) | 2,969 |
| Non-cash and other items | 290 | (1,946) |
| Tax paid | (475) | (1,173) |
| Net cash provided by (used in) operating activities | 9,766 | (3,361) |
| Cash flows from investing activities | | |
| Purchase of financial assets | (8,250) | (6,050) |
| Proceeds from sale and maturity of financial assets | 6,159 | 14,856 |
| Purchase of fixed assets | (1,819) | (1,733) |
| Proceeds from sale of fixed assets | 601 | 542 |
| Acquisition of businesses, net of cash acquired | – | (26) |
| Disposal of businesses, net of cash disposed | 107 | 7,622 |
| Net cash (used in) provided by investing activities | (3,202) | 15,211 |
| Cash flows from financing activities | | |
| Dividends paid to ordinary shareholders | (2,100) | (10,422) |
| Distributions on other equity instruments | (139) | (135) |
| Dividends paid to non-controlling interests | – | (5) |
| Return of capital contribution | (3) | – |
| Interest paid on subordinated liabilities | (530) | (625) |
| Proceeds from issue of subordinated liabilities | – | 201 |
| Repayment of subordinated liabilities | (512) | (1,612) |
| Capital repayment to parent company | – | (1,800) |
| Borrowings from parent company | 2,211 | 9,430 |
| Repayments to parent company | (2,964) | (3,817) |
| Interest paid on borrowing from parent company | (383) | (322) |
| Change in non-controlling interests | – | – |
| Net cash used in financing activities | (4,420) | (9,107) |
| Effects of exchange rate changes on cash and cash equivalents | – | 1 |
| Change in cash and cash equivalents | 2,144 | 2,744 |
| Cash and cash equivalents at beginning of period | 39,723 | 60,982 |
| Cash and cash equivalents at end of period | 41,867 | 63,726 |

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.

CONSOLIDATED CASH FLOW STATEMENT (continued)**Discontinued operations**

The impact of the Group's discontinued operations on the above cash flow statement was as follows:

| | Half-year to 30 June 2019 £m | Half-year to 30 June 2018 £m |
|---|---|---------------------------------------|
| Net cash provided by operating activities | – | (11,529) |
| Net cash from investing activities | – | 60 |
| Net cash used in financing activities | – | (682) |
| Change in cash and cash equivalents | <u>–</u> | <u>(12,151)</u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 and are available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

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.

Details of the impact of adoption of IFRS 16 are provided in note 19.

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 £38 million (half-year to 30 June 2018: £36 million). 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 30 July 2019 have not yet been endorsed by the EU, are not expected to have a significant impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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

At 30 June 2019 the Group's allowance for expected credit losses (ECL) was £3,371 million (31 December 2018: £3,213 million), of which £3,201 million (31 December 2018: £3,023 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 generating the economic scenarios 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 UK economic assumptions made by the Group as at 30 June 2019 averaged over a five year period are shown below.

Economic assumptions

| | Base case % | Upside % | Downside % | Severe downside % |
|-------------------------------------|-----------------------|--------------------|----------------------|---------------------------------|
| Scenario weighting | 30 | 30 | 30 | 10 |
| At 30 June 2019 | | | | |
| Bank of England base 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 | | | | |
| Bank of England base 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) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**1. Accounting policies, presentation and estimates** (continued)*Economic assumptions – start to peak*

| | Base case % | Upside % | Downside % | Severe downside % |
|-------------------------------------|-----------------------|--------------------|----------------------|---------------------------------|
| At 30 June 2019 | | | | |
| Bank of England base 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 | | | | |
| Bank of England base 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) |

Economic assumptions – start to trough

| | Base case % | Upside % | Downside % | Severe downside % |
|-------------------------------------|-----------------------|--------------------|----------------------|---------------------------------|
| At 30 June 2019 | | | | |
| Bank of England base 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 | | | | |
| Bank of England base 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 effect of the revised economic assumptions has been to increase the ECL allowance by £50 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**1. Accounting policies, presentation and estimates** (continued)*Impact of forward looking information*

As a result of applying the assumptions set out above, the extent to which a higher ECL allowance has been recognised is shown below:

| | Base case £m | Probability -weighted £m | Difference £m |
|------------------------|-----------------|--------------------------------|------------------|
| UK mortgages | 501 | 619 | 118 |
| Other Retail | 1,365 | 1,386 | 21 |
| Commercial | 1,284 | 1,340 | 56 |
| Other | 26 | 26 | – |
| At 30 June 2019 | 3,176 | 3,371 | 195 |
| At 31 December 2018 | 2,951 | 3,213 | 262 |

2. Segmental analysis

The Group provides a wide range of banking and financial services in the UK and in certain locations overseas. The Group Executive Committee (GEC) of Lloyds Bank plc has been determined to be the chief operating decision maker for the Group.

The Group's activities are organised into two financial reporting segments: Retail and Commercial Banking. During the half-year to 30 June 2019, the Group transferred Cardnet, its card payment acceptance service, from Retail into Commercial Banking. Comparatives have been restated accordingly.

There has been no change to the Group's segmental accounting for internal segment services or derivatives entered into by units for risk management purposes since 31 December 2018.

Half-year to 30 June 2019

| | Retail £m | Commercial Banking £m | Other £m | Total £m |
|-----------------------------------|----------------|-----------------------------|----------------|----------------|
| Net interest income | 4,325 | 1,368 | 375 | 6,068 |
| Other income | 1,010 | 461 | 1,075 | 2,546 |
| Total income | 5,335 | 1,829 | 1,450 | 8,614 |
| Costs | (3,561) | (926) | (831) | (5,318) |
| Trading surplus | 1,774 | 903 | 619 | 3,296 |
| Impairment | (556) | (64) | 31 | (589) |
| Profit before tax | 1,218 | 839 | 650 | 2,707 |
| External income | 6,444 | 547 | 1,623 | 8,614 |
| Intersegment income | (1,109) | 1,282 | (173) | – |
| Total income | 5,335 | 1,829 | 1,450 | 8,614 |
| Total external assets | 346,908 | 98,909 | 147,102 | 592,919 |
| Total external liabilities | 259,367 | 128,733 | 164,496 | 552,596 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. Segmental analysis** (continued)

Half-year to 30 June 2018

| | Retail £m | Comm- ercial Banking £m | Other £m | Cont- inuing operations £m | Dis- continued operations¹ £m | Adjust- ments £m | Total £m |
|--|----------------------|--|---------------------|---|---|---------------------------------|---------------------|
| Net interest income | 4,485 | 1,513 | 393 | 6,391 | 11 | – | 6,402 |
| Other income, net of insurance claims | 1,049 | 808 | 265 | 2,122 | 692 | (296) | 2,518 |
| Total income, net of insurance claims | 5,534 | 2,321 | 658 | 8,513 | 703 | (296) | 8,920 |
| Costs | (3,590) | (1,140) | (999) | (5,729) | (333) | 296 | (5,766) |
| Trading surplus | 1,944 | 1,181 | (341) | 2,784 | 370 | – | 3,154 |
| Impairment | (460) | 6 | 24 | (430) | – | – | (430) |
| Profit on disposal | – | – | – | – | 1,010 | – | 1,010 |
| Profit before tax | 1,484 | 1,187 | (317) | 2,354 | 1,380 | – | 3,734 |
| External income | 6,422 | 586 | 1,505 | 8,513 | 703 | (296) | 8,920 |
| Intersegment income | (888) | 1,735 | (847) | – | – | – | – |
| Total income | 5,534 | 2,321 | 658 | 8,513 | 703 | (296) | 8,920 |
| Total external assets | 350,448 | 170,542 | 171,229 | 692,219 | – | – | 692,219 |
| Total external liabilities | 262,217 | 212,994 | 176,364 | 651,575 | – | – | 651,575 |

¹ The Group's discontinued operations were previously in its Insurance segment.**3. Net fee and commission income**

| | Half-year to 30 June 2019 £m | Half-year to 30 June 2018 £m |
|--|---|---|
| Fee and commission income: | | |
| Current accounts | 322 | 315 |
| Credit and debit card fees | 460 | 478 |
| Commercial banking and treasury fees | 80 | 150 |
| Private banking and asset management | 37 | 49 |
| Factoring | 53 | 39 |
| Other | 241 | 259 |
| Total fee and commission income | 1,193 | 1,290 |
| Fee and commission expense | (531) | (538) |
| Net fee and commission income | 662 | 752 |

Current account and credit and debit card fees principally arise in Retail, and commercial banking, treasury and factoring fees arising in Commercial Banking.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. Operating expenses**

| | Half-year to 30 June 2019 £m | Half-year to 30 June 2018 £m |
|--|---------------------------------------|---------------------------------------|
| Administrative expenses: | | |
| Staff costs | 2,043 | 2,405 |
| Premises and equipment | 221 | 357 |
| Other expenses | 1,015 | 1,006 |
| | <u>3,279</u> | <u>3,768</u> |
| Depreciation and amortisation | 1,272 | 1,183 |
| Total operating expenses, excluding regulatory provisions | 4,551 | 4,951 |
| Regulatory provisions (note 13): | | |
| Payment protection insurance provision | 649 | 546 |
| Other regulatory provisions | 118 | 232 |
| | <u>767</u> | <u>778</u> |
| Total operating expenses | 5,318 | 5,729 |

5. Impairment

| | Half-year to 30 June 2019 £m | Half-year to 30 June 2018 £m |
|---|---------------------------------------|---------------------------------------|
| Impact of transfers between stages | 379 | 340 |
| Other changes in credit quality | 220 | 248 |
| Additions (repayments) | (56) | (95) |
| Methodology changes | 16 | (61) |
| Model changes | 29 | – |
| Other items | 1 | (2) |
| | <u>210</u> | <u>90</u> |
| Total impairment charge | 589 | 430 |
| In respect of: | | |
| Loans and advances to banks | – | – |
| Loans and advances to customers | 610 | 444 |
| Debt securities | – | – |
| Due from fellow Lloyds Banking Group undertakings | (1) | – |
| Financial assets at amortised cost | 609 | 444 |
| Other assets | – | – |
| | <u>609</u> | <u>444</u> |
| Impairment charge on drawn balances | 609 | 444 |
| Loan commitments and financial guarantees | (20) | (15) |
| Financial assets at fair value through other comprehensive income | – | 1 |
| Total impairment charge | 589 | 430 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. Impairment** (continued)

The Group's impairment charge comprises the following:

Transfers between stages

The net impact on the impairment charge of transfers between stages.

Other changes in credit quality

Changes in loss allowance as a result of movements in risk parameters that reflect changes in customer credit quality, but which have not resulted in a transfer to a different stage. This also contains the impact on the impairment charge of write-offs and recoveries, where the related loss allowances are reassessed to reflect ultimate realisable or recoverable value.

Additions (repayments)

Expected loss allowances are recognised on origination of new loans or further drawdowns of existing facilities. Repayments relate to the reduction of allowances as a result of repayments of outstanding balances.

Methodology changes

Increase or decrease in impairment charge as a result of adjustments to the models used for expected credit loss calculations; either as changes to the model inputs (risk parameters) or to the underlying assumptions.

Model changes

The impact on the impairment charge of changing the models used to calculate expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. 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 ¹ £m |
|---|---|--|
| Profit before tax from continuing operations | 2,707 | 2,354 |
| Tax thereon at UK corporation tax rate of 19 per cent (2018: 19 per cent) | (514) | (447) |
| Impact of surcharge on banking profits | (231) | (172) |
| Non-deductible costs: conduct charges | (103) | (92) |
| Other non-deductible costs | (17) | (23) |
| Non-taxable income | 32 | 35 |
| Tax relief on coupons on other equity instruments | 26 | 26 |
| Tax exempt gains on disposals | 3 | 1 |
| Recognition (derecognition) of losses that arose in prior years | (3) | (10) |
| Remeasurement of deferred tax due to rate changes | (2) | – |
| Differences in overseas tax rates | (8) | 3 |
| Adjustments in respect of prior years | 100 | 11 |
| Tax charge on profit from continuing operations | (717) | (668) |

¹ Restated, see note 1.

7. Financial assets at fair value through profit or loss

| | At 30 June 2019 £m | At 31 Dec 2018 £m |
|--|---------------------------------------|----------------------------|
| Trading assets | 3,927 | 19,462 |
| Other financial assets at fair value through profit or loss: | | |
| Loans and advances to customers | 2,334 | 3,120 |
| Debt securities | 508 | 518 |
| Equity shares | 135 | 156 |
| | 2,977 | 3,794 |
| Total financial assets at fair value through profit or loss | 6,904 | 23,256 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. 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 | Purchased or originated credit- impaired £m | Total £m |
|--|----------------|---------------|----------------|--|----------------|
| At 1 January 2019 | 420,968 | 25,308 | 5,397 | 15,391 | 467,064 |
| Exchange and other adjustments | 78 | (94) | 87 | 194 | 265 |
| Additions (repayments) | 12,869 | (2,829) | (144) | (999) | 8,897 |
| Transfers to Stage 1 | 5,426 | (5,412) | (14) | | – |
| Transfers to Stage 2 | (12,978) | 13,237 | (259) | | – |
| Transfers to Stage 3 | (741) | (1,064) | 1,805 | | – |
| | (8,293) | 6,761 | 1,532 | | – |
| Recoveries | | | 200 | 28 | 228 |
| Financial assets that have been written off | | | (1,068) | – | (1,068) |
| At 30 June 2019 | 425,622 | 29,146 | 6,004 | 14,614 | 475,386 |
| Allowance for impairment losses | (613) | (952) | (1,453) | (181) | (3,199) |
| Total loans and advances to customers | 425,009 | 28,194 | 4,551 | 14,433 | 472,187 |

(B) Loans and advances to banks

| | | | | | |
|--|--------------|-----------|----------|----------|--------------|
| At 1 January 2019 | 3,691 | 2 | – | – | 3,693 |
| Exchange and other adjustments | (22) | 2 | – | – | (20) |
| Transfers to Stage 2 | (10) | 10 | – | – | – |
| Additions (repayments) | 530 | – | – | – | 530 |
| At 30 June 2019 | 4,189 | 14 | – | – | 4,203 |
| Allowance for impairment losses | (1) | – | – | – | (1) |
| Total loans and advances to banks | 4,188 | 14 | – | – | 4,202 |

(C) Debt securities

| | | | | | |
|--|----------------|---------------|--------------|---------------|----------------|
| At 1 January 2019 | 5,095 | – | 2 | – | 5,097 |
| Exchange and other adjustments | (6) | – | – | – | (6) |
| Additions (repayments) | 229 | – | – | – | 229 |
| Financial assets that have been written off | | | (1) | – | (1) |
| At 30 June 2019 | 5,318 | – | 1 | – | 5,319 |
| Allowance for impairment losses | – | – | (1) | – | (1) |
| Total debt securities | 5,318 | – | – | – | 5,318 |
| Due from fellow Lloyds Banking Group undertakings | 1,887 | – | – | – | 1,887 |
| Total financial assets at amortised cost | 436,402 | 28,208 | 4,551 | 14,433 | 483,594 |

Exchange and other adjustments includes certain adjustments, prescribed by IFRS 9, in respect of purchased or originated credit-impaired financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. 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 | Purchased or originated credit- impaired £m | Total £m |
|---|---------------|---------------|---------------|--|-------------|
| At 1 January 2018 | 403,881 | 37,245 | 5,073 | 17,973 | 464,172 |
| Exchange and other adjustments | 787 | (12) | 65 | – | 840 |
| Additions (repayments) | 28,156 | (2,128) | (1,746) | (2,609) | 21,673 |
| Transfers to Stage 1 | 19,521 | (19,498) | (23) | | – |
| Transfers to Stage 2 | (15,736) | 15,989 | (253) | | – |
| Transfers to Stage 3 | (1,971) | (2,220) | 4,191 | | – |
| | 1,814 | (5,729) | 3,915 | | – |
| Recoveries | – | – | 552 | 27 | 579 |
| Disposal of businesses | (13,670) | (4,068) | (884) | – | (18,622) |
| Financial assets that have been written off | | | (1,578) | – | (1,578) |
| At 31 December 2018 | 420,968 | 25,308 | 5,397 | 15,391 | 467,064 |
| Allowance for impairment losses | (518) | (992) | (1,432) | (78) | (3,020) |
| Total loans and advances to customers | 420,450 | 24,316 | 3,965 | 15,313 | 464,044 |

(B) Loans and advances to banks

| | | | | | |
|-----------------------------------|---------|---|---|---|---------|
| At 1 January 2018 | 4,182 | 2 | – | – | 4,184 |
| Exchange and other adjustments | 58 | – | – | – | 58 |
| Additions (repayments) | 1,503 | – | – | – | 1,503 |
| Disposal of businesses | (2,052) | – | – | – | (2,052) |
| At 31 December 2018 | 3,691 | 2 | – | – | 3,693 |
| Allowance for impairment losses | (1) | – | – | – | (1) |
| Total loans and advances to banks | 3,690 | 2 | – | – | 3,692 |

(C) Debt securities

| | | | | | |
|---|---------|--------|-------|--------|---------|
| At 1 January 2018 | 3,305 | – | 3 | – | 3,308 |
| Exchange and other adjustments | (103) | – | – | – | (103) |
| Additions (repayments) | 1,897 | – | – | – | 1,897 |
| Financial assets that have been written off | – | – | (1) | – | (1) |
| Disposal of businesses | (4) | – | – | – | (4) |
| At 31 December 2018 | 5,095 | – | 2 | – | 5,097 |
| Allowance for impairment losses | – | – | (2) | – | (2) |
| Total debt securities | 5,095 | – | – | – | 5,095 |
| Due from fellow Lloyds Banking Group undertakings | 1,878 | – | – | – | 1,878 |
| Total financial assets at amortised cost | 431,113 | 24,318 | 3,965 | 15,313 | 474,709 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. Financial assets at amortised cost** (continued)

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, with the exception of those held within Purchased or originated credit-impaired, which are not transferrable. Net increase and decrease 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.

Loans and advances to customers include advances securitised under the Group's securitisation and covered bond programmes (see note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Allowance for impairment losses

Half-year to 30 June 2019

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|--|---------------|---------------|---------------|--|--------------|
| <i>In respect of drawn balances</i> | | | | | |
| At 1 January 2019 | 519 | 992 | 1,434 | 78 | 3,023 |
| Exchange and other adjustments | 2 | (84) | 323 | 195 | 436 |
| Transfers to Stage 1 | 329 | (323) | (6) | | – |
| Transfers to Stage 2 | (50) | 86 | (36) | | – |
| Transfers to Stage 3 | (7) | (35) | 42 | | – |
| Impact of transfers between stages | (280) | 373 | 276 | | 369 |
| | (8) | 101 | 276 | | 369 |
| Other items charged to the income statement | 101 | (57) | 316 | (120) | 240 |
| Charge to the income statement (note 5) | 93 | 44 | 592 | (120) | 609 |
| Advances written off | | | (1,068) | – | (1,068) |
| Recoveries of advances written off in previous years | | | 200 | 28 | 228 |
| Discount unwind | | | (27) | – | (27) |
| At 30 June 2019 | 614 | 952 | 1,454 | 181 | 3,201 |
| <i>In respect of undrawn balances</i> | | | | | |
| At 1 January 2019 | 121 | 63 | 6 | – | 190 |
| Exchange and other adjustments | – | – | – | – | – |
| Transfers to Stage 1 | 17 | (17) | – | | – |
| Transfers to Stage 2 | (5) | 5 | – | | – |
| Transfers to Stage 3 | – | (2) | 2 | | – |
| Impact of transfers between stages | (14) | 25 | (1) | | 10 |
| | (2) | 11 | 1 | | 10 |
| Other items charged to the income statement | (33) | 5 | (2) | – | (30) |
| Charge to the income statement | (35) | 16 | (1) | – | (20) |
| At 30 June 2019 | 86 | 79 | 5 | – | 170 |
| Total allowance for impairment losses | 700 | 1,031 | 1,459 | 181 | 3,371 |
| <i>In respect of:</i> | | | | | |
| Loans and advances to banks | 1 | – | – | – | 1 |
| Loans and advances to customers | 613 | 952 | 1,453 | 181 | 3,199 |
| Debt securities | – | – | 1 | – | 1 |
| Other assets | – | – | – | – | – |
| Drawn balances | 614 | 952 | 1,454 | 181 | 3,201 |
| Provisions in relation to loan commitments and financial guarantees | 86 | 79 | 5 | – | 170 |
| Total allowance for impairment losses | 700 | 1,031 | 1,459 | 181 | 3,371 |
| Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item) | 1 | – | – | – | 1 |

Exchange and other adjustments includes certain adjustments, prescribed by IFRS 9, in respect of purchased or originated credit-impaired financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. Allowance for impairment losses** (continued)**Year ended 31 December 2018**

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|--|---------------|---------------|---------------|--|-------------|
| <i>In respect of drawn balances</i> | | | | | |
| At 1 January 2018 | 590 | 1,147 | 1,455 | 32 | 3,224 |
| Exchange and other adjustments | 1 | – | 118 | – | 119 |
| Transfers to Stage 1 | 304 | (299) | (5) | | – |
| Transfers to Stage 2 | (46) | 85 | (39) | | – |
| Transfers to Stage 3 | (32) | (131) | 163 | | – |
| Impact of transfers between stages | (231) | 368 | 324 | | 461 |
| | (5) | 23 | 443 | | 461 |
| Other items charged to the income statement | (59) | (76) | 686 | – | 551 |
| Charge to the income statement (note 9) | (64) | (53) | 1,129 | – | 1,012 |
| Advances written off | | | (1,579) | – | (1,579) |
| Disposal of businesses | (8) | (102) | (183) | – | (293) |
| Recoveries of advances written off in previous years | | | 552 | 27 | 579 |
| Discount unwind | | | (58) | 19 | (39) |
| At 31 December 2018 | 519 | 992 | 1,434 | 78 | 3,023 |
| <i>In respect of undrawn balances</i> | | | | | |
| At 1 January 2018 | 147 | 126 | – | – | 273 |
| Exchange and other adjustments | (6) | (15) | 10 | – | (11) |
| Transfers to Stage 1 | 28 | (28) | – | | – |
| Transfers to Stage 2 | (6) | 6 | – | | – |
| Transfers to Stage 3 | (2) | (5) | 7 | | – |
| Impact of transfers between stages | (25) | 22 | (5) | | (8) |
| | (5) | (5) | 2 | | (8) |
| Other items charged to the income statement | (15) | (43) | (6) | – | (64) |
| Charge to the income statement | (20) | (48) | (4) | – | (72) |
| At 31 December 2018 | 121 | 63 | 6 | – | 190 |
| Total allowance for impairment losses | 640 | 1,055 | 1,440 | 78 | 3,213 |
| <i>In respect of:</i> | | | | | |
| Loans and advances to banks | 1 | – | – | – | 1 |
| Loans and advances to customers | 518 | 992 | 1,432 | 78 | 3,020 |
| Debt securities | – | – | 2 | – | 2 |
| Other assets | – | – | – | – | – |
| Drawn balances | 519 | 992 | 1,434 | 78 | 3,023 |
| Provisions in relation to loan commitments and financial guarantees | 121 | 63 | 6 | – | 190 |
| Total allowance for impairment losses | 640 | 1,055 | 1,440 | 78 | 3,213 |
| Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item) | 1 | – | – | – | 1 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. Allowance for impairment losses** (continued)

The Group's income statement charge comprises:

| | Half-year to 30 June 2019 £m | Year ended 31 Dec 2018 £m |
|---|---|--|
| Drawn balances | 609 | 1,012 |
| Undrawn balances | (20) | (72) |
| Financial assets at fair value through other comprehensive income | – | (14) |
| Total | <u>589</u> | <u>926</u> |

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, with the exception of those held within Purchased or originated credit-impaired, which are not transferable. As assets are transferred between stages, the resulting change in expected credit loss of £369 million for drawn balances, and £10 million for undrawn balances, is presented separately in the stage in which the allowance is recognised at the end of the reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. Discontinued operations**

The Group sold the Scottish Widows Group to its ultimate holding company, Lloyds Banking Group plc, in the first half of 2018. These operations have been classified as discontinued operations and the profit after tax from these activities for the half-year to 30 June 2018 reported as a single line on the Group's income statement.

In order to fairly reflect the results and financial position of the Group's continuing operations and its discontinued operations, transactions that the continuing operations had with the discontinued operations were reported on the relevant line in the Group's income statement, with the matching transaction similarly reported in the discontinued operations income statement. All such transactions fully eliminate within the Group's statutory consolidation and there was no net impact on profit before tax or equity.

Income statement

The results of the discontinued operations, up to the point of sale in 2018, were as follows:

| | Half-year to 30 June 2018 £m |
|---|---------------------------------------|
| Interest and similar income | 14 |
| Interest and similar expense | (3) |
| Net interest income | 11 |
| Fee and commission income | 106 |
| Fee and commission expense | (180) |
| Net fee and commission income | (74) |
| Net trading income | (790) |
| Insurance premium income | 2,714 |
| Other operating income | 205 |
| Other income | 2,055 |
| Total income | 2,066 |
| Insurance claims | (1,363) |
| Total income, net of insurance claims | 703 |
| Operating expenses | (333) |
| Trading surplus | 370 |
| Profit on disposal of the discontinued operations | 1,010 |
| Profit before tax | 1,380 |
| Taxation | (66) |
| Profit after tax from discontinued operations | 1,314 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. Debt securities in issue**

| | 30 June 2019 | | | 31 December 2018 | | |
|---------------------------------------|--|-------------------------|---------------|--|-------------------------|---------------|
| | At fair value through profit or loss £m | At amortised cost £m | Total £m | At fair value through profit or loss £m | At amortised cost £m | Total £m |
| Medium-term notes issued | 7,930 | 18,418 | 26,348 | 7,032 | 17,314 | 24,346 |
| Covered bonds | – | 30,479 | 30,479 | – | 28,194 | 28,194 |
| Certificates of deposit | – | 5,806 | 5,806 | – | 6,667 | 6,667 |
| Securitisation notes | 52 | 5,308 | 5,360 | 53 | 5,480 | 5,533 |
| Commercial paper | – | 9,330 | 9,330 | – | 6,878 | 6,878 |
| Total debt securities in issue | 7,982 | 69,341 | 77,323 | 7,085 | 64,533 | 71,618 |

The notes issued by the Group's securitisation and covered bond programmes are held by external parties and by subsidiaries of the Group.

Securitisation programmes

At 30 June 2019, external parties held £5,360 million (31 December 2018: £5,533 million) and the Group's subsidiaries held £30,092 million (31 December 2018: £31,647 million) of total securitisation notes in issue of £35,452 million (31 December 2018: £37,180 million). The notes are secured on loans and advances to customers and debt securities held at amortised cost amounting to £38,604 million (31 December 2018: £41,674 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. The structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet.

Covered bond programmes

At 30 June 2019, external parties held £30,479 million (31 December 2018: £28,194 million) and the Group's subsidiaries held £700 million (31 December 2018: £700 million) of total covered bonds in issue of £31,179 million (31 December 2018: £28,894 million). The bonds are secured on certain loans and advances to customers amounting to £41,049 million (31 December 2018: £36,802 million) that have been assigned to bankruptcy remote limited liability partnerships. These loans are retained on the Group's balance sheet.

Cash deposits of £4,049 million (31 December 2018: £4,102 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations are held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. Post-retirement defined benefit schemes**

The Group's post-retirement defined benefit scheme obligations are comprised as follows:

| | At 30 June 2019 £m | At 31 Dec 2018 £m |
|-------------------------------------|-----------------------------|----------------------------|
| Defined benefit pension schemes: | | |
| Fair value of scheme assets | 45,763 | 42,238 |
| Present value of funded obligations | (44,375) | (41,092) |
| Net pension scheme asset | 1,388 | 1,146 |
| Other post-retirement schemes | (129) | (124) |
| Net retirement benefit asset | 1,259 | 1,022 |
| Recognised on the balance sheet as: | | |
| Retirement benefit assets | 1,509 | 1,267 |
| Retirement benefit obligations | (250) | (245) |
| Net retirement benefit asset | 1,259 | 1,022 |

The movement in the Group's net post-retirement defined benefit scheme asset during the period was as follows:

| | £m |
|--------------------------------|--------------|
| Asset at 1 January 2019 | 1,022 |
| Exchange and other adjustments | 11 |
| Income statement charge | (139) |
| Employer contributions | 538 |
| Remeasurement | (173) |
| Asset at 30 June 2019 | 1,259 |

The principal assumptions used in the valuations of the defined benefit pension scheme were as follows:

| | At 30 June 2019 % | At 31 Dec 2018 % |
|---|----------------------------|---------------------------|
| Discount rate | 2.33 | 2.90 |
| Rate of inflation: | | |
| Retail Prices Index | 3.19 | 3.20 |
| Consumer Price Index | 2.14 | 2.15 |
| Rate of salary increases | 0.00 | 0.00 |
| Weighted-average rate of increase for pensions in payment | 2.73 | 2.73 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**13. Provisions for liabilities and charges**

| | Provisions for commitments £m | Payment Protection Insurance £m | Other regulatory provisions £m | Other £m | Total £m |
|---|--|--|---|-------------|--------------|
| Balance at 31 December 2018 | 190 | 1,520 | 707 | 927 | 3,344 |
| Adjustment on implementation of IFRS 16 | – | – | – | (97) | (58) |
| Exchange and other adjustments | – | 32 | – | (5) | 27 |
| Provisions applied | – | (989) | (376) | (199) | (1,564) |
| Charge for the period | (20) | 649 | 118 | 125 | 872 |
| At 30 June 2019 | 170 | 1,212 | 449 | 751 | 2,582 |

Payment protection insurance (excluding MBNA)

The Group increased the provision for PPI costs by a further £649 million in the half-year to 30 June 2019, of which £550 million was in the second quarter, bringing the total amount provided to £20,026 million.

The charge in the second quarter is largely driven by the significant increase in PPI information requests (PIRs) which is likely to lead to higher total complaints and associated administration costs. The Group has historically received around 70,000 PIRs per week, of which around 9,000 converted into a complaint. Through the second quarter, the number of PIRs received increased to around 150,000 per week and in recent weeks around 190,000 per week and the Group has assumed that PIRs remain at this elevated until the industry deadline at the end of August 2019. At the same time, the quality of PIRs has deteriorated and the Group expects this to continue. While PIR and complaint volumes remain uncertain, the impact of these additional volumes is expected to generate around 200,000 extra complaints, increasing the total expected complaint volumes from 5.6 million to 5.8 million.

At 30 June 2019, a provision of £1,081 million remained unutilised relating to complaints and associated administration costs. Total cash payments were £893 million during the six months to 30 June 2019.

Sensitivities

The Group estimates that it has sold approximately 16 million PPI policies since 2000. These include policies that were not mis-sold and those that have been successfully claimed upon. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for approximately 54 per cent of the policies sold since 2000.

The total amount provided for PPI represents the Group's best estimate of the likely future cost. A number of risks and uncertainties remain including with respect to future complaint volumes, however the potential impact of these risks has reduced due to the proximity of the industry deadline. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required. These may also be impacted by any further regulatory changes, the final stage of the Financial Conduct Authority (FCA) media campaign and Claims Management Company and customer activity, and potential additional remediation arising from the continuous improvement of the Group's operational practices.

Deloitte LLP has been appointed to assist the Official Receiver with the submission of PPI queries to providers to establish whether any mis-sold PPI redress is due to creditors of bankrupts' estates. The Group has not made any provision in relation to this matter, which will remain under review.

For every additional 1,000 reactive complaints per week from July 2019 through to the industry deadline of the end of August 2019, the Group would expect an additional charge of approximately £20 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**13. Provisions for liabilities and charges (continued)****Payment protection insurance (MBNA)**

As announced in December 2016, the Group's exposure is capped at £240 million, which is already provided for, through an indemnity received from Bank of America. MBNA increased its PPI provision by £32 million in the half-year to 30 June 2019 but the Group's exposure continues to remain capped at £240 million under the arrangement with Bank of America, notwithstanding this increase by MBNA.

Other provisions for legal actions and regulatory matters

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers, investors and other third parties and is subject to legal proceedings and other legal actions. Where significant, provisions are held against the costs expected to be incurred in relation to these matters and matters arising from related internal reviews. During the six months to 30 June 2019 the Group charged a further £118 million in respect of legal actions and other regulatory matters, and the unutilised balance at 30 June 2019 was £449 million (31 December 2018: £707 million). The most significant items are as follows.

Arrears handling related activities

The Group has provided an additional £55 million in the half-year to 30 June 2019 for the costs of identifying and rectifying certain arrears management fees and activities, taking the total provided to date to £848 million. The Group has put in place a number of actions to improve its handling of customers in these areas and has made good progress in reimbursing arrears fees to impacted customers.

Packaged bank accounts

The Group had provided a total of £795 million up to 31 December 2018 in respect of complaints relating to alleged mis-selling of packaged bank accounts, with no further amounts provided during the six months to 30 June 2019. A number of risks and uncertainties remain particularly with respect to future volumes.

HBOS Reading – customer review

The Group has now completed its compensation assessment for all 71 business customers within the customer review, with more than 98 per cent of these offers to individuals accepted. In total, more than £98 million has been offered of which £84 million has so far been accepted, in addition to £9 million for ex-gratia payments and £6 million for the reimbursements of legal fees.

The review follows the conclusion of a criminal trial in which a number of individuals, including two former HBOS employees, were convicted of conspiracy to corrupt, fraudulent trading and associated money laundering offences which occurred prior to the acquisition of HBOS by Lloyds Banking Group in 2009. The Group provided a further £15 million in the year ended 31 December 2018 for customer settlements, raising the total amount provided to £115 million and is now nearing the end of the process of paying compensation to the victims of the fraud, including ex-gratia payments and reimbursements of legal fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. Contingent liabilities and commitments*****Interchange fees***

With respect to multi-lateral interchange fees (MIFs), the Group is not directly involved in the ongoing litigation (as described below) which involve card schemes such as Visa and Mastercard. However, the Group is a member / licensee of Visa and Mastercard and other card schemes:

- Litigation brought by retailers continues in the English Courts against both Visa and Mastercard.
- Litigation brought on behalf of UK consumers is also proceeding in the English Courts against Mastercard.
- Any ultimate impact on the Group of the litigation against Visa and Mastercard remains uncertain at this time

Visa Inc completed its acquisition of Visa Europe on 21 June 2016. As part of this transaction, the Group and certain other UK banks also entered into a Loss Sharing Agreement (LSA) with Visa Inc, which clarifies the allocation of liabilities between the parties should the litigation referred to above result in Visa Inc being liable for damages payable by Visa Europe. The maximum amount of liability to which the Group may be subject under the LSA is capped at the cash consideration which was received by the Group at completion. Visa Inc may also have recourse to a general indemnity, previously in place under Visa Europe's Operating Regulations, for damages claims concerning inter or intra-regional MIF setting activities.

LIBOR and other trading rates

In July 2014, the Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Group companies' submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate. The Swiss Competition Commission concluded its investigation against Lloyds in June 2019. The Group continues to cooperate with various other government and regulatory authorities, including a number of US State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates.

Certain Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US Dollar, Japanese Yen and Sterling LIBOR and the Australian BBSW Reference Rate. Certain of the plaintiffs' claims, have been dismissed by the US Federal Court for Southern District of New York (subject to appeals).

Certain Group companies are also named as defendants in (i) UK based claims; and (ii) two Dutch class actions, raising LIBOR manipulation allegations. A number of the claims against the Group in relation to the alleged mis-sale of interest rate hedging products also include allegations of LIBOR manipulation.

It is currently not possible to predict the scope and ultimate outcome on the Group of the various outstanding regulatory investigations not encompassed by the settlements, any private lawsuits or any related challenges to the interpretation or validity of any of the Group's contractual arrangements, including their timing and scale.

Tax authorities

The Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules which allow the offset of such losses denies the claim. If HMRC's position is found to be correct management estimate that this would result in an increase in Lloyds Bank Group's current tax liabilities of approximately £660 million (including interest) and a reduction in deferred tax assets of approximately £250 million. The Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due. There are a number of other open matters on which the Group is in discussion with HMRC (including the tax treatment of certain costs arising from the divestment of TSB Banking Group plc), none of which is expected to have a material impact on the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. Contingent liabilities and commitments** (continued)***Mortgage arrears handling activities***

On 26 May 2016, the Group was informed that an enforcement team at the FCA had commenced an investigation in connection with the Group's mortgage arrears handling activities. This investigation is ongoing and the Group continues to cooperate with the FCA. It is not currently possible to make a reliable assessment of any liability that may result from the investigation including any financial penalty or public censure.

HBOS Reading - FCA investigation

The FCA's investigation into the events surrounding the discovery of misconduct within the Reading-based Impaired Assets team of HBOS has concluded. The FCA issued a final notice on 21 June 2019 announcing that the Group had agreed to settle the matter and pay a fine of £45.5 million.

Other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. Contingent liabilities and commitments** (continued)**Contingent liabilities and commitments arising from the banking business**

| | At 30 June 2019 £m | At 31 Dec 2018 £m |
|--|-----------------------------|----------------------------|
| Contingent liabilities | | |
| Acceptances and endorsements | 42 | 32 |
| Other: | | |
| Other items serving as direct credit substitutes | 870 | 485 |
| Performance bonds and other transaction-related contingencies | 2,248 | 2,270 |
| | 3,118 | 2,755 |
| Total contingent liabilities | 3,160 | 2,787 |
| Commitments and guarantees | | |
| Documentary credits and other short-term trade-related transactions | 1 | 1 |
| Forward asset purchases and forward deposits placed | 171 | 731 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| Less than 1 year original maturity: | | |
| Mortgage offers made | 14,976 | 11,573 |
| Other commitments and guarantees | 77,263 | 77,995 |
| | 92,239 | 89,568 |
| 1 year or over original maturity | 27,854 | 28,214 |
| Total commitments and guarantees | 120,265 | 118,514 |

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £51,140 million (31 December 2018: £48,455 million) was irrevocable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. 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 44 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 sources of data cease to be observable.

Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to the valuation methodology (techniques and inputs) disclosed in the Group's 2018 Annual Report and Accounts applied to these 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 | 6,904 | 6,904 | 23,256 | 23,256 |
| Derivative financial instruments | 10,748 | 10,748 | 11,293 | 11,293 |
| Loans and advances to banks | 4,202 | 4,201 | 3,692 | 3,655 |
| Loans and advances to customers | 472,187 | 473,818 | 464,044 | 463,796 |
| Debt securities | 5,318 | 5,311 | 5,095 | 5,107 |
| Due from fellow Lloyds Banking Group undertakings | 1,887 | 1,887 | 1,878 | 1,878 |
| Financial assets at amortised cost | 483,594 | 485,217 | 474,709 | 474,436 |
| Financial assets at fair value through other comprehensive income | 26,680 | 26,680 | 24,368 | 24,368 |
| Financial liabilities | | | | |
| Deposits from banks | 29,984 | 29,953 | 26,263 | 26,245 |
| Customer deposits | 394,233 | 394,458 | 391,251 | 391,524 |
| Due to fellow Lloyds Banking Group undertakings | 17,514 | 17,514 | 19,663 | 19,663 |
| Financial liabilities at fair value through profit or loss | 8,237 | 8,237 | 17,730 | 17,730 |
| Derivative financial instruments | 9,675 | 9,675 | 10,911 | 10,911 |
| Debt securities in issue | 69,341 | 70,003 | 64,533 | 66,379 |
| Subordinated liabilities | 12,432 | 14,378 | 12,745 | 14,460 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. 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, items in course of transmission to banks and notes in circulation.

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 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---------------|---------------|---------------|-------------|
| At 30 June 2019 | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Loans and advances to customers | – | 3,429 | 2,334 | 5,763 |
| Loans and advances to banks | – | 67 | – | 67 |
| Debt securities | 431 | 508 | – | 939 |
| Equity shares | 129 | 6 | – | 135 |
| Treasury and other bills | – | – | – | – |
| Total financial assets at fair value through profit or loss | 560 | 4,010 | 2,334 | 6,904 |
| Financial assets at fair value through other comprehensive income: | | | | |
| Debt securities | 15,220 | 10,947 | 56 | 26,223 |
| Equity shares | – | – | – | – |
| Treasury and other bills | 457 | – | – | 457 |
| Total financial assets at fair value through other comprehensive income | 15,677 | 10,947 | 56 | 26,680 |
| Derivative financial instruments | – | 10,722 | 26 | 10,748 |
| Total financial assets carried at fair value | 16,237 | 25,679 | 2,416 | 44,332 |
| At 31 December 2018 | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Loans and advances to customers | – | 17,290 | 2,721 | 20,011 |
| Loans and advances to banks | – | 236 | – | 236 |
| Debt securities | 2,293 | 560 | – | 2,853 |
| Equity shares | 150 | 6 | – | 156 |
| Total financial assets at fair value through profit or loss | 2,443 | 18,092 | 2,721 | 23,256 |
| Financial assets at fair value through other comprehensive income: | | | | |
| Debt securities | 18,847 | 5,247 | 53 | 24,147 |
| Treasury and other bills | 221 | – | – | 221 |
| Total financial assets at fair value through other comprehensive income | 19,068 | 5,247 | 53 | 24,368 |
| Derivative financial instruments | – | 11,288 | 5 | 11,293 |
| Total financial assets carried at fair value | 21,511 | 34,627 | 2,779 | 58,917 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. 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: | | | | |
| Liabilities held at fair value through profit or loss | – | 7,930 | 52 | 7,982 |
| Trading liabilities | 70 | 185 | – | 255 |
| Total financial liabilities at fair value through profit or loss | 70 | 8,115 | 52 | 8,237 |
| Derivative financial instruments | – | 9,326 | 349 | 9,675 |
| Total financial liabilities carried at fair value | 70 | 17,441 | 401 | 17,912 |
| At 31 December 2018 | | | | |
| Financial liabilities at fair value through profit or loss: | | | | |
| Liabilities held at fair value through profit or loss | – | 7,085 | – | 7,085 |
| Trading liabilities | 67 | 10,578 | – | 10,645 |
| Total financial liabilities at fair value through profit or loss | 67 | 17,663 | – | 17,730 |
| Derivative financial instruments | – | 10,903 | 8 | 10,911 |
| Total financial liabilities carried at fair value | 67 | 28,566 | 8 | 28,641 |

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 comprehensive income £m | Derivative assets £m | Total financial assets carried at fair value £m |
|---|--|--|----------------------------|--|
| At 1 January 2019 | 2,721 | 53 | 5 | 2,779 |
| Exchange and other adjustments | 1 | – | – | 1 |
| Gains recognised in the income statement within other income | 2 | – | – | 2 |
| Gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income | – | 4 | – | 4 |
| Purchases | 483 | – | – | 483 |
| Sales | (1,272) | (1) | – | (1,273) |
| Transfers into the level 3 portfolio | 399 | – | 21 | 420 |
| Transfers out of the level 3 portfolio | – | – | – | – |
| At 30 June 2019 | 2,334 | 56 | 26 | 2,416 |
| Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2019 | – | – | – | – |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. Fair values of financial assets and liabilities** (continued)

| | 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 | 2,037 | 302 | 1,056 | 3,395 |
| Exchange and other adjustments | 7 | (1) | – | 6 |
| Gains recognised in the income statement within other income | 38 | – | 2 | 40 |
| Gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income | – | 1 | – | 1 |
| Purchases | 8 | – | – | 8 |
| Sales | – | (91) | (983) | (1,074) |
| Transfers into the level 3 portfolio | 193 | 334 | – | 527 |
| Transfers out of the level 3 portfolio | – | (193) | – | (193) |
| At 30 June 2018 | <u>2,283</u> | <u>352</u> | <u>75</u> | <u>2,710</u> |
| Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2018 | 12 | – | 2 | 14 |

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

| | Financial liabilities at fair value through profit or loss £m | Derivative liabilities £m | Total financial liabilities carried at fair value £m |
|--|--|---------------------------------|---|
| At 1 January 2019 | – | 8 | 8 |
| Losses recognised in the income statement within other income | – | 8 | 8 |
| Additions | – | – | – |
| Redemptions | (1) | (12) | (13) |
| Transfers into the level 3 portfolio | 53 | 345 | 398 |
| Transfers out of the level 3 portfolio | – | – | – |
| At 30 June 2019 | <u>52</u> | <u>349</u> | <u>401</u> |
| Losses recognised in the income statement within other income relating to those liabilities held at 30 June 2019 | – | 8 | 8 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. Fair values of financial assets and liabilities** (continued)

| | Derivative liabilities £m | Total financial liabilities carried at fair value £m |
|---|------------------------------|--|
| At 1 January 2018 | 804 | 804 |
| Exchange and other adjustments | – | – |
| Gains recognised in the income statement within other income | (30) | (30) |
| Additions | – | – |
| Redemptions | (649) | (649) |
| Transfers into the level 3 portfolio | – | – |
| Transfers out of the level 3 portfolio | – | – |
| At 30 June 2018 | <u>125</u> | <u>125</u> |
| Gains recognised in the income statement within other income relating to those liabilities held at 30 June 2018 | (30) | (30) |

The tables below set out the effects of reasonably possible alternative assumptions for categories of level 3 financial assets and financial liabilities which have an aggregated carrying value greater than £500 million.

| | | | | At 30 June 2019 | | |
|---|------------------------|---------------------------------|--------------------|--|--------------------------|----------------------------|
| | | | | Effect of reasonably possible alternative assumptions ¹ | | |
| | Valuation technique(s) | Significant unobservable inputs | Range ² | Carrying value £m | Favourable changes £m | Unfavourable changes £m |
| <i>Financial assets at fair value through profit or loss:</i> | | | | | | |
| Loans and advances to customers | Discounted cashflows | Inferred spreads (bps) | 76bps / 104bps | <u>2,334</u> | | |
| | | | | <u>2,334</u> | 23 | (27) |
| <i>Financial assets at fair value through other comprehensive income:</i> | | | | 56 | | |
| <i>Derivative financial assets:</i> | | | | | | |
| Interest rate derivatives | Option pricing model | Interest rate volatility | 7% / 121% | <u>26</u> | – | – |
| | | | | <u>26</u> | | |
| Financial assets carried at fair value | | | | <u>2,416</u> | | |
| <i>Financial liabilities at fair value through profit or loss</i> | | | | 52 | | |
| <i>Derivative financial liabilities:</i> | | | | | | |
| Interest rate derivatives | Option pricing model | Interest rate volatility | 7% / 121% | <u>349</u> | – | – |
| | | | | <u>349</u> | | |
| Financial liabilities carried at fair value | | | | <u>401</u> | | |

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

² The range represents the highest and lowest inputs used in the level 3 valuations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. Fair values of financial assets and liabilities** (continued)

| | | | | At 31 December 2018 | | |
|--|---------------------------------|--------------------------|--------------------------|----------------------|--|------|
| | | | | Carrying value £m | Effect of reasonably possible alternative assumptions ¹ | |
| Valuation technique(s) | Significant unobservable inputs | Range ² | Favourable changes £m | | Unfavourable changes £m | |
| <i>Financial assets at fair value through profit or loss:</i> | | | | | | |
| Loans and advances to customers | Discounted cashflows | Inferred spreads (bps) | 97 bps / 103 bps | 2,721 | 35 | (35) |
| | | | | <u>2,721</u> | | |
| <i>Financial assets at fair value through other comprehensive income</i> | | | | 53 | | |
| <i>Derivative financial assets:</i> | | | | | | |
| Interest rate derivatives | Option pricing model | Interest rate volatility | 19% / 80% | 5 | – | – |
| | | | | <u>5</u> | | |
| Financial assets carried at fair value | | | | <u>2,779</u> | | |
| <i>Derivative financial liabilities:</i> | | | | | | |
| Interest rate derivatives | Option pricing model | Interest rate volatility | 19% / 80% | 8 | – | – |
| | | | | <u>8</u> | | |
| Financial liabilities carried at fair value | | | | <u>8</u> | | |

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

² The range represents the highest and lowest inputs used in the level 3 valuations.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments 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 and are unchanged from those described in the Group's 2018 financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Credit quality of loans and advances to banks and customers

Gross drawn exposures

At 30 June 2019

| | PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|---|--------------|----------------|---------------|---------------|--|----------------|
| Loans and advances to banks: | | | | | | |
| CMS 1-10 | 0.00-0.50% | 3,997 | 14 | – | – | 4,011 |
| CMS 11-14 | 0.51-3.00% | 192 | – | – | – | 192 |
| CMS 15-18 | 3.01-20.00% | – | – | – | – | – |
| CMS 19 | 20.01-99.99% | – | – | – | – | – |
| CMS 20-23 | 100% | – | – | – | – | – |
| | | 4,189 | 14 | – | – | 4,203 |
| Loans and advances to customers: | | | | | | |
| <i>Retail – mortgages</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 252,238 | 13,585 | – | – | 265,823 |
| RMS 7-9 | 4.51-14.00% | 22 | 1,842 | – | – | 1,864 |
| RMS 10 | 14.01-20.00% | – | 421 | – | – | 421 |
| RMS 11-13 | 20.01-99.99% | – | 1,028 | – | – | 1,028 |
| RMS 14 | 100.00% | – | – | 1,543 | 14,614 | 16,157 |
| | | 252,260 | 16,876 | 1,543 | 14,614 | 285,293 |
| <i>Retail – unsecured</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 22,749 | 1,213 | – | – | 23,962 |
| RMS 7-9 | 4.51-14.00% | 1,782 | 738 | – | – | 2,520 |
| RMS 10 | 14.01-20.00% | 36 | 143 | – | – | 179 |
| RMS 11-13 | 20.01-99.99% | 11 | 545 | – | – | 556 |
| RMS 14 | 100.00% | – | – | 678 | – | 678 |
| | | 24,578 | 2,639 | 678 | – | 27,895 |
| <i>Retail – UK Motor Finance</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 14,013 | 881 | – | – | 14,894 |
| RMS 7-9 | 4.51-14.00% | 327 | 236 | – | – | 563 |
| RMS 10 | 14.01-20.00% | – | 93 | – | – | 93 |
| RMS 11-13 | 20.01-99.99% | 3 | 192 | – | – | 195 |
| RMS 14 | 100.00% | – | – | 137 | – | 137 |
| | | 14,343 | 1,402 | 137 | – | 15,882 |
| <i>Retail - other</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 8,252 | 370 | – | – | 8,622 |
| RMS 7-9 | 4.51-14.00% | – | 107 | – | – | 107 |
| RMS 10 | 14.01-20.00% | – | 10 | – | – | 10 |
| RMS 11-13 | 20.01-99.99% | 167 | 28 | – | – | 195 |
| RMS 14 | 100.00% | – | – | 132 | – | 132 |
| | | 8,419 | 515 | 132 | – | 9,066 |
| CMS 1-10 | 0.00-0.50% | 1,538 | 275 | – | – | 1,813 |
| CMS 11-14 | 0.51-3.00% | – | – | – | – | – |
| CMS 15-18 | 3.01-20.00% | – | – | – | – | – |
| CMS 19 | 20.01-99.99% | – | – | – | – | – |
| CMS 20-23 | 100% | – | – | 29 | – | 29 |
| | | 1,538 | 275 | 29 | – | 1,842 |
| Total Retail | | 301,138 | 21,707 | 2,519 | 14,614 | 339,978 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. Credit quality of loans and advances to banks and customers** (continued)**Gross drawn exposures** (continued)

At 30 June 2019

| | PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|--|--------------|----------------|---------------|---------------|--|----------------|
| <i>Commercial</i> | | | | | | |
| CMS 1-10 | 0.00-0.50% | 51,267 | 341 | – | – | 51,608 |
| CMS 11-14 | 0.51-3.00% | 20,915 | 4,670 | – | – | 25,585 |
| CMS 15-18 | 3.01-20.00% | 598 | 2,314 | – | – | 2,912 |
| CMS 19 | 20.01-99.99% | – | 64 | – | – | 64 |
| CMS 20-23 | 100% | – | – | 3,429 | – | 3,429 |
| | | 72,780 | 7,389 | 3,429 | – | 83,598 |
| <i>Other</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 795 | 50 | – | – | 845 |
| RMS 7-9 | 4.51-14.00% | – | – | – | – | – |
| RMS 10 | 14.01-20.00% | – | – | – | – | – |
| RMS 11-13 | 20.01-99.99% | – | – | – | – | – |
| RMS 14 | 100.00% | – | – | 56 | – | 56 |
| | | 795 | 50 | 56 | – | 901 |
| CMS 1-10 | 0.00-0.50% | 50,909 | – | – | – | 50,909 |
| CMS 11-14 | 0.51-3.00% | – | – | – | – | – |
| CMS 15-18 | 3.01-20.00% | – | – | – | – | – |
| CMS 19 | 20.01-99.99% | – | – | – | – | – |
| CMS 20-23 | 100% | – | – | – | – | – |
| | | 50,909 | – | – | – | 50,909 |
| Total loans and advances to customers | | 425,622 | 29,146 | 6,004 | 14,614 | 475,386 |
| <i>In respect of:</i> | | | | | | |
| Retail | | 301,138 | 21,707 | 2,519 | 14,614 | 339,978 |
| Commercial | | 72,780 | 7,389 | 3,429 | – | 83,598 |
| Other | | 51,704 | 50 | 56 | – | 51,810 |
| Total loans and advances to customers | | 425,622 | 29,146 | 6,004 | 14,614 | 475,386 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Credit quality of loans and advances to banks and customers (continued)

Expected credit losses

At 30 June 2019

| | PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|---|--------------|---------------|---------------|---------------|--|--------------|
| Loans and advances to banks: | | | | | | |
| CMS 1-10 | 0.00-0.50% | - | - | - | - | - |
| CMS 11-14 | 0.51-3.00% | 1 | - | - | - | 1 |
| CMS 15-18 | 3.01-20.00% | - | - | - | - | - |
| CMS 19 | 20.01-99.99% | - | - | - | - | - |
| CMS 20-23 | 100% | - | - | - | - | - |
| | | 1 | - | - | - | 1 |
| Loans and advances to customers: | | | | | | |
| <i>Retail – mortgages</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 37 | 168 | - | - | 205 |
| RMS 7-9 | 4.51-14.00% | - | 36 | - | - | 36 |
| RMS 10 | 14.01-20.00% | - | 15 | - | - | 15 |
| RMS 11-13 | 20.01-99.99% | - | 47 | - | - | 47 |
| RMS 14 | 100.00% | - | - | 134 | 181 | 315 |
| | | 37 | 266 | 134 | 181 | 618 |
| <i>Retail – unsecured</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 184 | 48 | - | - | 232 |
| RMS 7-9 | 4.51-14.00% | 70 | 76 | - | - | 146 |
| RMS 10 | 14.01-20.00% | 4 | 26 | - | - | 30 |
| RMS 11-13 | 20.01-99.99% | 3 | 180 | - | - | 183 |
| RMS 14 | 100.00% | - | - | 215 | - | 215 |
| | | 261 | 330 | 215 | - | 806 |
| <i>Retail – UK Motor Finance</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 187 | 19 | - | - | 206 |
| RMS 7-9 | 4.51-14.00% | 13 | 11 | - | - | 24 |
| RMS 10 | 14.01-20.00% | - | 9 | - | - | 9 |
| RMS 11-13 | 20.01-99.99% | - | 31 | - | - | 31 |
| RMS 14 | 100.00% | - | - | 77 | - | 77 |
| | | 200 | 70 | 77 | - | 347 |
| <i>Retail - other</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 6 | 9 | - | - | 15 |
| RMS 7-9 | 4.51-14.00% | - | 3 | - | - | 3 |
| RMS 10 | 14.01-20.00% | - | - | - | - | - |
| RMS 11-13 | 20.01-99.99% | - | - | - | - | - |
| RMS 14 | 100.00% | - | - | 46 | - | 46 |
| | | 6 | 12 | 46 | - | 64 |
| CMS 1-10 | 0.00-0.50% | 20 | 19 | - | - | 39 |
| CMS 11-14 | 0.51-3.00% | - | - | - | - | - |
| CMS 15-18 | 3.01-20.00% | - | - | - | - | - |
| CMS 19 | 20.01-99.99% | - | - | - | - | - |
| CMS 20-23 | 100% | - | - | 6 | - | 6 |
| | | 20 | 19 | 6 | - | 45 |
| Total Retail | | 524 | 697 | 478 | 181 | 1,880 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. Credit quality of loans and advances to banks and customers** (continued)**Expected credit losses** (continued)**At 30 June 2019**

| | PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|--|---------------------|-----------------------|-----------------------|-----------------------|--|---------------------|
| <i>Commercial</i> | | | | | | |
| CMS 1-10 | 0.00-0.50% | 30 | 1 | – | – | 31 |
| CMS 11-14 | 0.51-3.00% | 46 | 109 | – | – | 155 |
| CMS 15-18 | 3.01-20.00% | 3 | 139 | – | – | 142 |
| CMS 19 | 20.01-99.99% | – | 5 | – | – | 5 |
| CMS 20-23 | 100% | – | – | 964 | – | 964 |
| | | 79 | 254 | 964 | – | 1,297 |
| <i>Other</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 10 | 1 | – | – | 11 |
| RMS 7-9 | 4.51-14.00% | – | – | – | – | – |
| RMS 10 | 14.01-20.00% | – | – | – | – | – |
| RMS 11-13 | 20.01-99.99% | – | – | – | – | – |
| RMS 14 | 100.00% | – | – | 11 | – | 11 |
| | | 10 | 1 | 11 | – | 22 |
| CMS 1-10 | 0.00-0.50% | – | – | – | – | – |
| CMS 11-14 | 0.51-3.00% | – | – | – | – | – |
| CMS 15-18 | 3.01-20.00% | – | – | – | – | – |
| CMS 19 | 20.01-99.99% | – | – | – | – | – |
| CMS 20-23 | 100% | – | – | – | – | – |
| | | – | – | – | – | – |
| Total loans and advances to customers | | 613 | 952 | 1,453 | 181 | 3,199 |
| <i>In respect of:</i> | | | | | | |
| Retail | | 524 | 697 | 478 | 181 | 1,880 |
| Commercial | | 79 | 254 | 964 | – | 1,297 |
| Other | | 10 | 1 | 11 | – | 22 |
| Total loans and advances to customers | | 613 | 952 | 1,453 | 181 | 3,199 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Credit quality of loans and advances to banks and customers (continued)

Gross drawn exposures

At 31 December 2018

| | PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|----------------------------------|--------------|---------------|---------------|---------------|--|-------------|
| Loans and advances to banks: | | | | | | |
| CMS 1-10 | 0.00-0.50% | 3,586 | 2 | — | — | 3,588 |
| CMS 11-14 | 0.51-3.00% | 105 | — | — | — | 105 |
| CMS 15-18 | 3.01-20.00% | — | — | — | — | — |
| CMS 19 | 20.01-99.99% | — | — | — | — | — |
| CMS 20-23 | 100% | — | — | — | — | — |
| | | 3,691 | 2 | — | — | 3,693 |
| Loans and advances to customers: | | | | | | |
| <i>Retail – mortgages</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 257,740 | 10,784 | — | — | 268,524 |
| RMS 7-9 | 4.51-14.00% | 57 | 1,709 | — | — | 1,766 |
| RMS 10 | 14.01-20.00% | — | 262 | — | — | 262 |
| RMS 11-13 | 20.01-99.99% | — | 899 | — | — | 899 |
| RMS 14 | 100.00% | — | — | 1,393 | 15,391 | 16,784 |
| | | 257,797 | 13,654 | 1,393 | 15,391 | 288,235 |
| <i>Retail – unsecured</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 22,363 | 1,079 | — | — | 23,442 |
| RMS 7-9 | 4.51-14.00% | 2,071 | 774 | — | — | 2,845 |
| RMS 10 | 14.01-20.00% | 72 | 167 | — | — | 239 |
| RMS 11-13 | 20.01-99.99% | 199 | 687 | — | — | 886 |
| RMS 14 | 100.00% | — | — | 703 | — | 703 |
| | | 24,705 | 2,707 | 703 | — | 28,115 |
| <i>Retail – UK Motor Finance</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 12,918 | 954 | — | — | 13,872 |
| RMS 7-9 | 4.51-14.00% | 301 | 318 | — | — | 619 |
| RMS 10 | 14.01-20.00% | — | 111 | — | — | 111 |
| RMS 11-13 | 20.01-99.99% | 5 | 197 | — | — | 202 |
| RMS 14 | 100.00% | — | — | 129 | — | 129 |
| | | 13,224 | 1,580 | 129 | — | 14,933 |
| <i>Retail - other</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 7,428 | 473 | — | — | 7,901 |
| RMS 7-9 | 4.51-14.00% | 190 | 60 | — | — | 250 |
| RMS 10 | 14.01-20.00% | — | 7 | — | — | 7 |
| RMS 11-13 | 20.01-99.99% | 211 | 23 | — | — | 234 |
| RMS 14 | 100.00% | — | — | 136 | — | 136 |
| | | 7,829 | 563 | 136 | — | 8,528 |
| CMS 1-10 | 0.00-0.50% | 1,605 | 231 | — | — | 1,836 |
| CMS 11-14 | 0.51-3.00% | — | 6 | — | — | 6 |
| CMS 15-18 | 3.01-20.00% | — | — | — | — | — |
| CMS 19 | 20.01-99.99% | — | — | — | — | — |
| CMS 20-23 | 100% | — | — | 29 | — | 29 |
| | | 1,605 | 237 | 29 | — | 1,871 |
| Total Retail | | 305,160 | 18,741 | 2,390 | 15,391 | 341,682 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. Credit quality of loans and advances to banks and customers** (continued)**Gross drawn exposures** (continued)

At 31 December 2018

| | PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|---------------------------------------|--------------|---------------|---------------|---------------|--|-------------|
| <i>Commercial</i> | | | | | | |
| CMS 1-10 | 0.00-0.50% | 50,143 | 100 | – | – | 50,243 |
| CMS 11-14 | 0.51-3.00% | 24,760 | 3,442 | – | – | 28,202 |
| CMS 15-18 | 3.01-20.00% | 1,287 | 2,962 | – | – | 4,249 |
| CMS 19 | 20.01-99.99% | – | 54 | – | – | 54 |
| CMS 20-23 | 100% | – | – | 2,958 | – | 2,958 |
| | | 76,190 | 6,558 | 2,958 | – | 85,706 |
| <i>Other</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 804 | 3 | – | – | 807 |
| RMS 7-9 | 4.51-14.00% | – | – | – | – | – |
| RMS 10 | 14.01-20.00% | – | – | – | – | – |
| RMS 11-13 | 20.01-99.99% | – | – | – | – | – |
| RMS 14 | 100.00% | – | – | 49 | – | 49 |
| | | 804 | 3 | 49 | – | 856 |
| CMS 1-10 | 0.00-0.50% | 38,814 | – | – | – | 38,814 |
| CMS 11-14 | 0.51-3.00% | – | 6 | – | – | 6 |
| CMS 15-18 | 3.01-20.00% | – | – | – | – | – |
| CMS 19 | 20.01-99.99% | – | – | – | – | – |
| CMS 20-23 | 100% | – | – | – | – | – |
| | | 38,814 | 6 | – | – | 38,820 |
| Total loans and advances to customers | | 420,968 | 25,308 | 5,397 | 15,391 | 467,064 |
| <i>In respect of:</i> | | | | | | |
| Retail | | 305,160 | 18,741 | 2,390 | 15,391 | 341,682 |
| Commercial | | 76,190 | 6,558 | 2,958 | – | 85,706 |
| Other | | 39,618 | 9 | 49 | – | 39,676 |
| Total loans and advances to customers | | 420,968 | 25,308 | 5,397 | 15,391 | 467,064 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Credit quality of loans and advances to banks and customers (continued)

Expected credit losses

At 31 December 2018

| | PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|----------------------------------|--------------|---------------|---------------|---------------|--|-------------|
| Loans and advances to banks: | | | | | | |
| CMS 1-10 | 0.00-0.50% | 1 | – | – | – | 1 |
| CMS 11-14 | 0.51-3.00% | – | – | – | – | – |
| CMS 15-18 | 3.01-20.00% | – | – | – | – | – |
| CMS 19 | 20.01-99.99% | – | – | – | – | – |
| CMS 20-23 | 100% | – | – | – | – | – |
| | | 1 | – | – | – | 1 |
| Loans and advances to customers: | | | | | | |
| <i>Retail – mortgages</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 37 | 141 | – | – | 178 |
| RMS 7-9 | 4.51-14.00% | – | 34 | – | – | 34 |
| RMS 10 | 14.01-20.00% | – | 9 | – | – | 9 |
| RMS 11-13 | 20.01-99.99% | – | 42 | – | – | 42 |
| RMS 14 | 100.00% | – | – | 118 | 78 | 196 |
| | | 37 | 226 | 118 | 78 | 459 |
| <i>Retail – unsecured</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 135 | 46 | – | – | 181 |
| RMS 7-9 | 4.51-14.00% | 57 | 83 | – | – | 140 |
| RMS 10 | 14.01-20.00% | 4 | 29 | – | – | 33 |
| RMS 11-13 | 20.01-99.99% | 3 | 171 | – | – | 174 |
| RMS 14 | 100.00% | – | – | 228 | – | 228 |
| | | 199 | 329 | 228 | – | 756 |
| <i>Retail – UK Motor Finance</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 114 | 19 | – | – | 133 |
| RMS 7-9 | 4.51-14.00% | 6 | 15 | – | – | 21 |
| RMS 10 | 14.01-20.00% | – | 11 | – | – | 11 |
| RMS 11-13 | 20.01-99.99% | 1 | 34 | – | – | 35 |
| RMS 14 | 100.00% | – | – | 78 | – | 78 |
| | | 121 | 79 | 78 | – | 278 |
| <i>Retail - other</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 10 | 8 | – | – | 18 |
| RMS 7-9 | 4.51-14.00% | 2 | 2 | – | – | 4 |
| RMS 10 | 14.01-20.00% | – | – | – | – | – |
| RMS 11-13 | 20.01-99.99% | – | 1 | – | – | 1 |
| RMS 14 | 100.00% | – | – | 53 | – | 53 |
| | | 12 | 11 | 53 | – | 76 |
| CMS 1-10 | 0.00-0.50% | 20 | 17 | – | – | 37 |
| CMS 11-14 | 0.51-3.00% | – | – | – | – | – |
| CMS 15-18 | 3.01-20.00% | – | – | – | – | – |
| CMS 19 | 20.01-99.99% | – | – | – | – | – |
| CMS 20-23 | 100% | – | – | 7 | – | 7 |
| | | 20 | 17 | 7 | – | 44 |
| Total Retail | | 389 | 662 | 484 | 78 | 1,613 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. Credit quality of loans and advances to banks and customers** (continued)**Expected credit losses** (continued)

At 31 December 2018

| | PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Purchased or originated credit- impaired £m | Total £m |
|---------------------------------------|--------------|---------------|---------------|---------------|--|-------------|
| <i>Commercial</i> | | | | | | |
| CMS 1-10 | 0.00-0.50% | 28 | 1 | – | – | 29 |
| CMS 11-14 | 0.51-3.00% | 49 | 86 | – | – | 135 |
| CMS 15-18 | 3.01-20.00% | 10 | 230 | – | – | 240 |
| CMS 19 | 20.01-99.99% | – | 7 | – | – | 7 |
| CMS 20-23 | 100% | – | – | 940 | – | 940 |
| | | 87 | 324 | 940 | – | 1,351 |
| <i>Other</i> | | | | | | |
| RMS 1-6 | 0.00-4.50% | 43 | – | – | – | 43 |
| RMS 7-9 | 4.51-14.00% | – | – | – | – | – |
| RMS 10 | 14.01-20.00% | – | – | – | – | – |
| RMS 11-13 | 20.01-99.99% | – | – | – | – | – |
| RMS 14 | 100.00% | – | – | 10 | – | 10 |
| | | 43 | – | 10 | – | 53 |
| CMS 1-10 | 0.00-0.50% | – | – | – | – | – |
| CMS 11-14 | 0.51-3.00% | – | 6 | – | – | 6 |
| CMS 15-18 | 3.01-20.00% | – | – | – | – | – |
| CMS 19 | 20.01-99.99% | – | – | – | – | – |
| CMS 20-23 | 100% | – | – | – | – | – |
| | | – | 6 | – | – | 6 |
| Total loans and advances to customers | | 519 | 992 | 1,434 | 78 | 3,023 |
| <i>In respect of:</i> | | | | | | |
| Retail | | 389 | 662 | 484 | 78 | 1,613 |
| Commercial | | 87 | 324 | 940 | – | 1,351 |
| Other | | 43 | 6 | 10 | – | 59 |
| Total loans and advances to customers | | 519 | 992 | 1,434 | 78 | 3,023 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. 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 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 | 1,887 | 1,878 |
| Derivative financial instruments | 1,330 | 2,589 |
| Financial assets at fair value through profit or loss | – | 1,062 |
| Liabilities | | |
| Due to fellow Lloyds Banking Group undertakings | 17,514 | 19,663 |
| Derivative financial instruments | 1,580 | 2,693 |
| Financial liabilities at fair value through profit or loss | 13 | 137 |
| Debt securities in issue | 1,725 | 193 |
| Subordinated liabilities | 2,993 | 2,985 |

During the half-year to 30 June 2019 the Group earned £6 million (half-year to 30 June 2018: £34 million) of interest income and incurred £236 million (half-year to 30 June 2018: £235 million) of interest expense on balances and transactions with Lloyds Banking Group plc and fellow Group undertakings.

As part of the arrangements in the run-up to the establishment of the Lloyds Banking Group's intended joint venture with Schroders plc, the Bank sold certain wealth management business to a fellow subsidiary of Lloyds Banking Group plc for proceeds of £107 million, realising a profit of £107 million. The Bank also entered into a service agreement in relation to the transferred business and has established a provision of £75 million reflecting the onerous nature of this contract.

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.

18. Dividends on ordinary shares

The directors have approved an interim dividend of £2,000 million which will be paid in the second half of 2019.

The Bank paid a dividend of £2,100 million on 13 May 2019; the Bank paid dividends of £7,622 million on 2 May 2018, £2,800 million on 16 May 2018 and a further £600 million on 19 September 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. Implementation of IFRS 16**

The Group adopted IFRS 16 Leases from 1 January 2019 and elected to apply the standard retrospectively with the cumulative effect of initial application being recognised at that date; comparative information has therefore not been restated.

Lease liabilities amounting to £1,752 million in respect of leased properties previously accounted for as operating leases were recognised at 1 January 2019. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at that date, adjusted to exclude short-term leases and leases of low-value assets. The weighted-average borrowing rate applied to these lease liabilities was 2.43 per cent. The corresponding right-of-use asset of £1,655 million was measured at an amount equal to the lease liabilities, adjusted for lease liabilities recognised at 31 December 2018 of £97 million. The right-of-use asset and lease liabilities are included within Property, plant and equipment and Other liabilities respectively. There was no impact on shareholders' equity.

In applying IFRS 16 for the first time, the Group has used a number of practical expedients permitted by the standard; the most significant of which were the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; reliance on previous assessments of whether a lease is onerous; and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. The Group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

20. 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.

21. 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 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

António Horta-Osório
Group Chief Executive
30 July 2019

Lloyds Bank plc board of directors:

António Horta-Osório (Group Chief Executive)
George Culmer (Chief Financial Officer)
Juan Colombás (Chief Risk Officer)
Lord Blackwell (Chairman)
Anita Frew (Deputy Chairman)
Alan Dickinson
Simon Henry
Lord Lupton CBE
Amanda Mackenzie OBE
Nicholas Prettejohn
Stuart Sinclair
Sara Weller CBE
Nigel Hinshelwood (Senior Independent Director)
Sarah Bentley
Brendan Gilligan

INDEPENDENT REVIEW REPORT TO LLOYDS BANK PLC**Report on the condensed consolidated half-year financial statements*****Our conclusion***

We have reviewed Lloyds Bank plc's condensed consolidated half-year financial statements (the "interim financial statements") in the 2019 Half-Year Results of Lloyds Bank 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 in the 2019 Half-Year Results 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. 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.

INDEPENDENT REVIEW REPORT TO LLOYDS BANK PLC (continued)***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
30 July 2019

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For further information please contact:

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Copies of this news release may be obtained from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The full news release can also be found on the Group's website – www.lloydsbankinggroup.com.

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