Lloyds Bank plc

Q1 2019 Interim Management Statement

2 May 2019

REVIEW OF PERFORMANCE

During the three months to 31 March 2019, the Group recorded a profit before tax of £1,420 million compared with a profit before tax from its continuing operations in the three months to 31 March 2018 of £1,441 million, a decrease of £21 million or 1 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 decreased by £130 million, or 3 per cent, to £4,074 million in the three months to 31 March 2019 compared with £4,204 million in the three months to 31 March 2018; a £152 million decrease in net interest income was only partly offset by an increase of £22 million in other income. Net interest income was £3,051 million in the three months to 31 March 2019, a decrease of £152 million, or 5 per cent, compared to £3,203 million in the three months to 31 March 2018 as a result of a decrease in net interest margin and lower levels of average interest-earning assets as growth in targeted segments was offset by reduced mortgage balances. Other income was £22 million higher at £1,023 million in the three months to 31 March 2019 compared to £1,001 million in the three months to 31 March 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, following the restructurings in 2018.

Operating expenses decreased by £149 million, or 6 per cent, to £2,379 million in the three months to 31 March 2019 compared with £2,528 million in the three months to 31 March 2018. There was a £31 million reduction in regulatory provisions and a £118 million decrease in other operating expenses. The charge in respect of regulatory provisions was £119 million compared to £150 million in the three months to 31 March 2018 and comprised a charge of £99 million in respect of payment protection insurance and £20 million in respect of other conduct issues. Other operating expenses were £118 million lower at £2,260 million in the three months to 31 March 2019 compared to £2,378 million in the three months to 31 March 2018.

Impairment losses increased by £40 million to £275 million in the three months to 31 March 2019 compared with £235 million in the three months to 31 March 2018; however credit quality remains strong, with no deterioration in credit risk.

Total assets were £7,596 million, or 1 per cent, higher at £601,082 million at 31 March 2019 compared to £593,486 million at 31 December 2018, with loans and advances to customers up £3,841 million mainly as a result of an increase of £9,030 million in reverse repurchase agreement balances held for liquidity purposes, as returns are relatively attractive. Although there was growth in lending to targeted segments, this was more than offset by a reduction in mortgage balances. Cash and balances at central banks also increased as a result of the placement of surplus funds.

Total liabilities were £7,108 million, or 1 per cent, higher at £560,241 million compared to £553,133 million at 31 December 2018, driven by increased repo balances with both banks and customers and growth in Commercial deposits which has more than offset reduced Retail savings balances. Total equity increased by £488 million, or 1 per cent, from £40,353 million at 31 December 2018 to £40,841 million at 31 March 2019, as the profit for the period of £985 million was partly offset by negative reserve movements, particularly in relation to post-retirement defined benefit scheme remeasurements.

The Group's common equity tier 1 capital ratio reduced to 14.5 per cent[1] at 31 March 2019 from 14.9 per cent at 31 December 2018. The tier 1 capital ratio reduced to 17.5 per cent[1] from 18.3 per cent at 31 December 2018. The total capital ratio reduced to 21.0 per cent[1] from 22.4 per cent at 31 December 2018. Risk-weighted assets increased by £1,870 million to £176,261 million at 31 March 2019, compared to £174,391 million at 31 December 2018.

[1] Incorporating profits, net of foreseeable dividends, for the period 1 January 2019 to 31 March 2019, that remain subject to formal verification in accordance with the Capital Requirements Regulation.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Quarter ended 31 Mar 2019 £ million	Quarter ended 31 Mar 2018[1] £ million
Net interest income	**3,051**	3,203
Other income	**1,023**	1,001
Total income	**4,074**	4,204
Total operating expenses	**(2,379)**	(2,528)
Trading surplus	**1,695**	1,676
Impairment	**(275)**	(235)
Profit before tax – continuing operations	**1,420**	1,441
Taxation	**(435)**	(421)
Profit after tax – continuing operations	**985**	1,020
Profit after tax – discontinued operations	**–**	110
Profit for the period	**985**	1,130
Profit attributable to ordinary shareholders	**906**	1,051
Profit attributable to other equity holders	**69**	67
Profit attributable to equity holders	**975**	1,118
Profit attributable to non-controlling interests	**10**	12
Profit for the period	**985**	1,130

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	At 31 Mar 2019 £ million[2]	At 31 Dec 2018 £ million
Assets		
Cash and balances at central banks	**49,317**	40,213
Financial assets at fair value through profit or loss	**14,383**	23,256
Derivative financial instruments	**10,262**	11,293
Financial assets at amortised cost	**479,364**	474,709
Financial assets at fair value through other comprehensive income	**25,974**	24,368
Other assets	**21,782**	19,647
Total assets	**601,082**	593,486
Liabilities		
Deposits from banks	**32,294**	26,263
Customer deposits	**395,962**	391,251
Deposits from fellow Lloyds Banking Group undertakings	**19,529**	19,663
Financial liabilities at fair value through profit or loss	**11,586**	17,730
Derivative financial instruments	**11,344**	10,911
Debt securities in issue	**65,229**	64,533
Subordinated liabilities	**12,432**	12,745
Other liabilities	**11,865**	10,037
Total liabilities	**560,241**	553,133
Shareholders' equity	**37,554**	37,063
Other equity interests	**3,217**	3,217
Non-controlling interests	**70**	73
Total equity	**40,841**	40,353
Total equity and liabilities	**601,082**	593,486

1 Restated. See basis of presentation
2 Reflects adoption of IFRS 16. See basis of presentation

BASIS OF PRESENTATION

This release covers the results of Lloyds Bank plc (the Bank) together with its subsidiaries (the Group) for the three months ended 31 March 2019.

As a result of the requirements of the ring-fencing regulations, the Bank sold its subsidiary, Scottish Widows Group Limited, to its ultimate holding company during 2018. Due to the significance of the Scottish Widows Group it has been classified as a discontinued operation in the comparative figures in the Bank's condensed consolidated financial information.

Accounting policies

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

The Group adopted IFRS 16 Leases from 1 January 2019 and as permitted elected to apply the standard retrospectively with the cumulative effect of initial application being recognised at that date; as required under this option comparative information has not been restated. Upon initial application the Group recognised a right-of-use asset of £1.7 billion (after offsetting existing lease liabilities) and a corresponding lease obligation of £1.8 billion; there was no impact on shareholders' equity.

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 recognised in equity, is now reported within the tax charge in the income statement. Comparatives have been restated, reducing the tax charge and increasing profit for the quarter ended 31 March 2018 by £18 million; there is no impact on shareholders' equity.

Capital

Capital ratios reported as at 31 March 2019 incorporate profits for the quarter, less foreseeable dividends, that remain subject to formal verification in accordance with the Capital Requirements Regulation. The Q1 2019 Interim Pillar 3 Report can be found at: www.lloydsbankinggroup.com/investors/financial-performance/subsidiary-companies

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and / or results of the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; 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; 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; risks relating to climate change; 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 transition from IBORs to alternative reference rates; 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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Copies of this interim management statement may be obtained from:
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The statement can also be found on the Group's website – www.lloydsbankinggroup.com

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