Lloyds Bank plc

Q3 2015 Interim Management Statement

28 October 2015

BASIS OF PRESENTATION

This release covers the results of Lloyds Bank plc together with its subsidiaries (the Group) for the nine months ended 30 September 2015.

Unless otherwise stated, income statement commentaries throughout this document compare the nine months ended 30 September 2015 to the nine months ended 30 September 2014, and the balance sheet analysis compares the Group balance sheet as at 30 September 2015 to the Group balance sheet as at 31 December 2014.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking 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 to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such 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 exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; pandemic, natural and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities in the UK, the EU, the US or elsewhere including the implementation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; 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 provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; 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 with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

REVIEW

Review of results

The Group recorded a profit before tax of £2,177 million for the nine months to 30 September 2015, a decrease of £83 million, or 4 per cent, compared to the profit before tax of £2,260 million for the nine months to 30 September 2014.

On 20 March 2015 the Group announced that it had agreed to sell a 9.99 per cent interest in TSB Banking Group plc (TSB) to Banco de Sabadell S.A. (Sabadell) and that it had entered into an irrevocable undertaking to accept Sabadell's recommended cash offer in respect of its remaining 40.01 per cent interest in TSB. The sale of the 9.99 per cent interest completed on 24 March 2015, resulting in a loss of control and the deconsolidation of TSB. On 30 June 2015 the Group announced that Sabadell's offer had become unconditional in all respects and the proceeds were received on 10 July 2015. In the nine months to 30 September 2015 the Group incurred a charge of £660 million following the deconsolidation and subsequent sale of TSB; this comprised a gain of £5 million on disposal of the 9.99 per cent interest and the revaluation of the Group's remaining holding, offset by a provision of £665 million in relation to the Group's obligations under the Transitional Service Agreement and in respect of IT provision.

Total income, net of insurance claims, decreased by £132 million, or 1 per cent, to £12,671 million for the nine months to 30 September 2015 from £12,803 million in the nine months to 30 September 2014.

Net interest income increased by £811 million, or 10 per cent, to £8,594 million. This increase in part reflected a decrease of £728 million in the charge within net interest income for amounts allocated to unit holders in Open-Ended Investment Companies reflecting adverse market conditions. Excluding this charge, net interest income was £83 million, or 1 per cent, higher at £8,229 million, following an increase in the net interest margin.

Other income, net of insurance claims, decreased by £943 million, or 19 per cent, to £4,077 million, largely due to a decrease in gains allocated to unit holders in Open-Ended Investment Companies due to adverse market conditions, lower net fee and commission income following business disposals and a reduction in the value of in-force insurance business.

Excluding regulatory provisions, operating expenses increased by £183 million, or 2 per cent, to £7,860 million. The nine months to 30 September 2015 includes a charge of £665 million relating to the disposal of TSB and there was a pension curtailment gain of £822 million in the nine months to 30 September 2014. Excluding these items, costs were £1,304 million, or 15 per cent, lower at £7,195 million. This decrease reflects a £910 million reduction in Simplification and TSB build and dual-running costs, together with the impact of business disposals and the ongoing benefits of the Group's efficiency programmes.

Regulatory provisions totalled £2,435 million. The Group increased the provision for expected PPI costs by a further £1,900 million in the first nine months of 2015 bringing the total amount provided to £13,925 million with £2,103 million remaining unutilised. Reactive complaint volumes remain higher than expected; and the increase in provision also reflects higher than expected redress rates in the remediation programme. The cash spend in the third quarter reduced to £634 million and included remediation and Past Business Review (PBR) repayments. Total cash spend year-to-date has been £2,346 million. A number of risks and uncertainties remain, in particular in respect of complaint volumes, which are primarily driven by CMC activity. The current provision continues to assume a significant decrease in reactive complaint volumes over the next 15 months, compared with trends in recent quarters. If reactive complaint volumes do not decline or the decline is delayed, this could lead to additional provisions with sensitivities consistent with those provided in the Group's 30 June 2015 results announcement. The Group notes the recent announcement from the FCA on potential time barring for PPI and Plevin and awaits further clarity on what the associated consultation process might mean for the sector. The Group has not reflected any possible impacts resulting from this FCA announcement in the provision at 30 September 2015.

The Group incurred a further charge of £535 million in the nine months to 30 September 2015 relating to potential claims and remediation in respect of products sold through the branch network and further investigation of matters highlighted through industry wide regulatory reviews, as well as legacy product sales and historical systems and controls such as those governing legacy incentive schemes.

REVIEW (continued)

Impairment losses decreased by £667 million, or 77 per cent, to £199 million; this improvement reflects effective risk management, improved economic conditions and the continued low interest rate environment; the net charge in 2015 reflects a number of provision releases.

The tax charge for the nine months to 30 September 2015 was £562 million, representing an effective tax rate of 26 per cent. This is higher than the UK corporation tax rate, due to the impact of non-deductible expenses and policyholder tax.

Following the enactment of tax changes in October 2015, the impact of the non-deductibility of PPI and conduct charges incurred after 8 July 2015 will be reflected in the final quarter of 2015.

On the balance sheet, total assets were £37,297 million, or 4 per cent, lower at £829,151 million at 30 September 2015, compared to £866,448 million at 31 December 2014. Loans and receivables decreased by £30,887 million, or 6 per cent, to £490,667 million and customer deposits decreased by £28,491 million, to £418,576 million, both principally reflecting the deconsolidation of TSB which lead to a decrease of £21,643 million in loans to customers and £24,625 million in deposits.

The Group's common equity tier 1 capital ratio increased to 16.1 per cent at the end of September 2015, from 15.1 per cent at the end of December 2014, driven predominantly by a reduction in risk-weighted assets.

Capital resources (transitional)	**At 30 Sept 2015 £ million**	At 31 Dec 2014 £ million
Total equity excluding non-controlling interests	**48,957**	48,777
Deconsolidation of insurance entities	**(1,063)**	(824)
Other adjustments	**(1,545)**	(1,375)
Deductions from common equity tier 1	**(9,927)**	(10,114)
Common equity tier 1 capital[1,2]	**36,422**	36,464
Additional tier 1 instruments	**4,761**	5,442
Deductions from tier 1	**(1,160)**	(859)
Total tier 1 capital[2]	**40,023**	41,047
Tier 2 instruments and eligible provisions	**14,005**	16,489
Deductions from tier 2	**(1,735)**	(1,288)
Total capital resources[2]	**52,293**	56,248
Risk-weighted assets		
Credit risk	**174,946**	186,562
Counterparty credit risk	**8,359**	9,108
Credit valuation adjustment risk	**1,435**	2,215
Operational risk	**26,279**	26,279
Market risk	**3,375**	4,746
Threshold risk-weighted assets	**11,437**	12,136
Total risk-weighted assets[1]	**225,831**	241,046
Ratios[2]		
Common equity tier 1 capital ratio[1]	**16.1%**	15.1%
Transitional tier 1 capital ratio	**17.7%**	17.0%
Transitional total capital ratio	**23.2%**	23.3%

[1] Common equity tier 1 capital resources, risk-weighted assets and the common equity tier 1 capital ratio are the same on both fully loaded and transitional bases.

[2] No dividend accrual has been recognised in CET1 capital for the second half of the year as the Board has not yet considered the appropriate level of payout for the full year.

STATUTORY CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET (UNAUDITED)

Income statement	**Nine months ended 30 Sept 2015 £ million**	Nine months ended 30 Sept 2014 £ million
Net interest income	**8,594**	7,783
Other income, net of insurance claims	**4,077**	5,020
Total income, net of insurance claims	**12,671**	12,803
Total operating expenses	**(10,295)**	(9,677)
Impairment	**(199)**	(866)
Profit before tax	**2,177**	2,260
Taxation	**(562)**	(450)
Profit for the period	**1,615**	1,810
Profit attributable to equity holders	**1,541**	1,751
Profit attributable to non-controlling interests	**74**	59
Profit for the period	**1,615**	1,810

Balance sheet	**At 30 Sept 2015 £ million**	At 31 Dec 2014 £ million
Assets		
Cash and balances at central banks	**61,278**	50,492
Trading and other financial assets at fair value through profit or loss	**145,777**	152,520
Derivative financial instruments	**30,484**	35,483
Loans and receivables:		
Loans and advances to banks	**22,722**	26,155
Loans and advances to customers	**455,024**	482,704
Debt securities	**1,645**	1,213
Due from fellow Lloyds Banking Group undertakings	**11,276**	11,482
	490,667	521,554
Available-for-sale financial assets	**33,594**	56,493
Held-to-maturity investments	**19,761**	–
Other assets	**47,590**	49,906
Total assets	**829,151**	866,448
Liabilities		
Deposits from banks	**17,176**	10,887
Customer deposits	**418,576**	447,067
Deposits from fellow Lloyds Banking Group undertakings	**4,961**	5,288
Trading and other financial liabilities at fair value through profit or loss	**54,894**	62,102
Derivative financial instruments	**27,765**	33,293
Debt securities in issue	**86,329**	75,672
Liabilities arising from insurance and investment contracts	**100,545**	114,189
Subordinated liabilities	**28,617**	31,973
Other liabilities	**40,910**	35,987
Total liabilities	**779,773**	816,458
Total equity	**49,378**	49,990
Total equity and liabilities	**829,151**	866,448

CONTACTS

For further information please contact:

INVESTORS AND ANALYSTS

Douglas Radcliffe
Group Investor Relations Director
020 7356 1571
douglas.radcliffe@finance.lloydsbanking.com

Mike Butters
Director of Investor Relations
020 7356 1187
mike.butters@finance.lloydsbanking.com

Duncan Heath
Director of Investor Relations
020 7356 1585
duncan.heath@finance.lloydsbanking.com

CORPORATE AFFAIRS

Matthew Young
Group Corporate Affairs Director
020 7356 2231
matt.young@lloydsbanking.com

Ed Petter
Group Media Relations Director
020 8936 5655
ed.petter@lloydsbanking.com

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

Registered office: Lloyds Bank plc, 25 Gresham Street, London EC2V 7HN
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