Lloyds Bank plc

Q1 2016 Interim Management Statement

28 April 2016

BASIS OF PRESENTATION

This release covers the results of Lloyds Bank plc together with its subsidiaries (the Group) for the three months ended 31 March 2016.

Unless otherwise stated, income statement commentaries throughout this document compare the three months ended 31 March 2016 to the three months ended 31 March 2015, and the balance sheet analysis compares the Group balance sheet as at 31 March 2016 to the Group balance sheet as at 31 December 2015.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Bank 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 Bank 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 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; natural, pandemic 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 or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation 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 by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and Lloyds Bank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

REVIEW

Review of results

The Group recorded a profit before tax of £316 million for the three months to 31 March 2016, a decrease of £840 million, or 73 per cent, compared with the profit before tax of £1,156 million for the three months to 31 March 2015. Although the Group's results for the three months to 31 March 2016 are broadly comparable on a line-by-line basis, comparisons are affected by the inclusion of the trading results of TSB up until the point of loss of control, at the end of March 2015.

Total income, net of insurance claims, decreased by £1,448 million, or 32 per cent, to £3,032 million for the three months to 31 March 2016 from £4,480 million in the three months to 31 March 2015.

Net interest income increased by £495 million, or 23 per cent, to £2,621 million in the three months to 31 March 2016 compared with £2,126 million in the same period in 2015. This was due to a decrease of £601 million in the charge within net interest income for amounts allocated to unit holders in Open-Ended Investment Companies, from £713 million in the three months to 31 March 2015 to £112 million in the three months to 31 March 2016, as a result of lower investment returns in 2016. Excluding this charge from both periods, and the £192 million net interest income of TSB from the comparative period, net interest income was £86 million, or 3 per cent, higher at £2,733 million in the three months to 31 March 2016 compared with £2,647 million in the same period in 2015. The net interest margin on the Group's relationship lending and similar assets improved, offsetting a small reduction in average interest-earning assets, which principally related to lending outside of the Group's risk appetite. The improvement in margin reflected the benefits of improved deposit pricing and mix, lower wholesale funding costs and one-off credit to net interest income related to the credit card portfolio.

Other income decreased by £3,236 million, or 44 per cent, to £4,069 million in the three months to 31 March 2016, compared with £7,305 million in the same period in 2015, due mainly to a £3,956 million decrease in net trading income, reflecting lower income from the insurance businesses driven by the impact of market conditions on policyholder assets. These market movements, together with the movement in insurance premium income, were largely offset in the Group's income statement by a £1,293 million, or 26 per cent, decrease in the insurance claims expense and the impact on net interest income of amounts allocated to unit holders in Open-Ended Investment Companies. Insurance premium income was £2,046 million higher at £1,727 million compared with a deficit of £319 million in the three months to 31 March 2015; underlying premium income of £1,640 million in 2015 having been offset by a charge of £1,959 million relating to the recapture by a third party insurer of a portfolio of policies previously reassured with the Group, this charge was offset by an equivalent credit within the insurance claims expense. Excluding this item from the comparable period, the insurance premium income of £1,727 million in the three months to 31 March 2016 was £87 million, or 5 per cent, higher.

Net fee and commission income was £98 million, or 17 per cent, lower at £466 million in the three months to 31 March 2016 compared with £564 million in the three months to 31 March 2015, principally as a result of the disposal of TSB and reduced levels of card and current account fees.

Other operating income was £1,228 million lower at a deficit of £584 million in the three months to 31 March 2016 compared with £644 million in the three months to 31 March 2015 reflecting the loss of £993 million arising on transactions related to Lloyds Banking Group's tender offers and redemptions in respect of its Enhanced Capital Notes together with reduced income from the movement in value of in-force insurance business, which was £278 million lower at a deficit of £23 million compared with income of £255 million in the three months to 31 March 2015.

REVIEW (continued)

Total operating expenses decreased by £597 million, or 19 per cent, to £2,583 million in the three months to 31 March 2016 compared with £3,180 million in the three months to 31 March 2015. The three months to 31 March 2015 included a charge of £665 million relating to the disposal of TSB and excluding this item from the comparative, costs were £68 million, or 3 per cent, higher at £2,583 million in the three months to 31 March 2016 compared with £2,515 million in the three months to 31 March 2015. There was a conduct provisions charge of £115 million in the three months to 31 March 2016 (three months to 31 March 2015: £nil) to cover retail conduct matters and a £135 million increase in restructuring costs. Offsetting this was the elimination of TSB operating costs of £86 million and dual-running costs of £85 million in the three months to 31 March 2015. Adjusting for the above items, costs were £11 million lower at £2,307 million in the three months to 31 March 2016 compared with £2,318 million in the same period in 2015 as savings from the Group's restructuring initiatives have more than offset the impact of annual pay increases and higher levels of operating lease depreciation following continued growth in the Lex Autolease business.

Impairment losses decreased by £11 million, or 8 per cent, to £133 million in the three months to 31 March 2016 compared with £144 million in the three months to 31 March 2015; the improvement reflects lower levels of new impairment partly offset by lower impairment releases and writebacks.

The tax charge for the three months to 31 March 2016 was £63 million (three months to 31 March 2015: £287 million), representing an effective tax rate of 20 per cent.

On the balance sheet, total assets were £18,569 million or 2 per cent, higher at £836,473 million at 31 March 2016, compared with £817,904 million at 31 December 2015. Loans and advances to customers increased by £1,534 million from £455,175 million at 31 December 2015 to £456,709 million at 31 March 2016 with increased lending to SMEs, other commercial clients and UK consumer finance customers. Customer deposits increased by £637 million to £418,963 million compared with £418,326 million at 31 December 2015. Total equity increased by £1,806 million, or 4 per cent, from £47,353 million at 31 December 2015 to £49,159 million at 31 March 2016 as a result of the retained profit for the period of £253 million and the positive impact of other reserve movements, in particular in relation to the cash flow hedging reserve.

The Group's transitional common equity tier 1 capital ratio decreased to 14.6 per cent at the end of March 2016 from 15.2 per cent at the end of December 2015 and the transitional total capital ratio was at 20.9 per cent (31 December 2015: 22.2 per cent). On 14 April 2016 the Board approved a dividend of £2.43 billion to be paid in May 2016, this dividend has been allowed for in the calculation of the Group's capital resources and ratios at 31 March 2016.

REVIEW (continued)

Capital resources (transitional)	At 31 Mar 2016 £ million	At 31 Dec 2015 £ million
Total equity excluding non-controlling interests	**48,745**	46,962
Deconsolidation of insurance entities	**(636)**	(1,199)
Other adjustments	**(5,636)**	(2,708)
Deductions from common equity tier 1	**(9,550)**	(9,014)
Common equity tier 1 capital	**32,923**	34,041
Additional tier 1 instruments	**4,081**	4,761
Deductions from tier 1	**(1,313)**	(1,177)
Total tier 1 capital	**35,691**	37,625
Tier 2 instruments and eligible provisions	**12,829**	13,783
Deductions from tier 2	**(1,540)**	(1,756)
Total capital resources	**46,980**	49,652
Risk-weighted assets		
Credit risk	**173,672**	172,494
Counterparty credit risk	**8,451**	7,981
Credit valuation adjustment risk	**1,087**	1,684
Operational risk	**26,123**	26,123
Market risk	**3,241**	3,775
Threshold risk-weighted assets	**12,266**	11,963
Total risk-weighted assets	**224,840**	224,020
Ratios		
Common equity tier 1 capital ratio	**14.6%**	15.2%
Tier 1 capital ratio	**15.9%**	16.8%
Total capital ratio	**20.9%**	22.2%

STATUTORY CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET (UNAUDITED)

Income statement	Three months ended 31 Mar 2016 £ million	Three months ended 31 Mar 2015 £ million
Net interest income	**2,621**	2,126
Other income, net of insurance claims	**411**	2,354
Total income, net of insurance claims	**3,032**	4,480
Total operating expenses	**(2,583)**	(3,180)
Impairment	**(133)**	(144)
Profit before tax	**316**	1,156
Taxation	**(63)**	(287)
Profit for the period	**253**	869
Profit attributable to equity holders	**228**	838
Profit attributable to non-controlling interests	**25**	31
Profit for the period	**253**	869

Balance sheet	At 31 Mar 2016 £ million	At 31 Dec 2015 £ million
Assets		
Cash and balances at central banks	**60,712**	58,417
Trading and other financial assets at fair value through profit or loss	**142,332**	141,149
Derivative financial instruments	**35,357**	28,922
Loans and receivables:		
Loans and advances to banks	**25,688**	25,117
Loans and advances to customers	**456,709**	455,175
Debt securities	**4,113**	4,191
Due from fellow Lloyds Banking Group undertakings	**11,765**	11,045
	498,275	495,528
Available-for-sale financial assets	**35,443**	33,032
Held-to-maturity investments	**21,449**	19,808
Other assets	**42,905**	41,048
Total assets	**836,473**	817,904
Liabilities		
Deposits from banks	**19,049**	16,925
Customer deposits	**418,963**	418,326
Deposits from fellow Lloyds Banking Group undertakings	**7,928**	5,926
Trading and other financial liabilities at fair value through profit or loss	**49,998**	51,863
Derivative financial instruments	**33,096**	26,347
Debt securities in issue	**88,084**	82,056
Liabilities arising from insurance and investment contracts	**104,341**	103,094
Subordinated liabilities	**25,417**	27,605
Other liabilities	**40,438**	38,409
Total liabilities	**787,314**	770,551
Total equity	**49,159**	47,353
Total equity and liabilities	**836,473**	817,904

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

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