Company Name: Lloyds
Company Ticker: LLOY LN
Date: 2018-04-25
Event Description: Q1 2018 Lloyds Banking Group PLC Interim Management Statement Call

Market Cap: 46801.5085506
Current PX: 65
YTD Change($): -2.7
YTD Change(%): -3.988

Bloomberg Estimates - EPS
Current Quarter: 0.018
Current Year: 0.076
Bloomberg Estimates - Sales
Current Quarter: 4542.5
Current Year: 18539.429

Q1 2018 Lloyds Banking Group PLC Interim Management Statement Call

Company Participants

- Mark George Clifford Culmer, CFO & Executive Director

Other Participants

- Andrew Philip Coombs, Director
- Christopher Cant, Partner, United Kingdom and Irish Banks
- Christopher Robert Manners, Co
- Claire Kane, Research Analyst
- David John Lock, Research Analyst
- Edward Hugo Anson Firth, Analyst
- John Cronin, Financial Analyst
- Jonathan Richard Kuczynski Pierce, Analyst of Banks
- Joseph Dickerson, Head of European Banks Research & Equity Analyst
- Martin Leitgeb, Analyst
- Michael Francis Helsby, MD and Co
- Raul Sinha, Analyst
- Robin Down, Co
- Unidentified Participant, Analyst

Presentation

Operator

Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Lloyds Banking Group Q1 2018 Interim Management Statement Conference Call. (Operator Instructions) There will be a presentation by George Culmer followed by a question-and-answer session. (Operator Instructions) Please note this call is scheduled for an hour. And I'd like to advise the call is being recorded today.

Now I hand over to your host. George, please go ahead.

Mark George Clifford Culmer, CFO & Executive Director

Hi there. Thanks for that. Good morning, everybody. And thank you for joining the call today. As we outlined in the full year results in February, given the simple and more stable position of the group, we've obviously shortened our Q1 reporting. And I'll be leading the call today and will give the briefest of overviews before we turn to Q&A, which will run until about 10:15.

It's been a strong start to 2018. As you know, in January, we're the first large U.K. bank to be ready for open banking. Then in February, we announced an ambitious strategic plan to transform the group for success in the digital world by investing in further enhancing our leading customer experience, digitizing the group, maximizing capabilities and transforming ways of working. We've made a good start to all of these. And we'll obviously update you on progress through the year.

In terms of the numbers, we've also made a good start. Statutory profit before tax was very strong at GBP 1.6 billion, up 23%; and profit after tax was up 29% at GBP 1.1 billion, both driven by increased underlying profit and a continued reduction in below-the-line items.

Our statutory return on tangible equity was 12.3% and up 3.5percentage points in the year. In underlying profit, we've seen a net income of GBP 4.3 billion, up 4%, with strong growth in NII offsetting lower other income. Net interest income was driven by an increase in the margin by 3 basis points in the quarter and by 13 basis points year-on-year, while other income was impacted by higher weather-related insurance claim, low bulk annuity business, flows in Commercial and the changes to overdraft charge in Retail. Cost:income ratio, which, as you know, now includes remediation, improved to 47.8%, with positive jaws of 9%, again, showing the group's market-leading efficiency.

Credit quality across the portfolio remained strong. The asset quality ratio increased to 23 basis points, largely due to the expected lower releases and write-backs. And the stable growth AQR of 27 basis points includes 3 basis points for MBNA.

On the balance sheet, loans and advances were up slightly in the quarter at GBP 445 billion after adjusting for IFRS 9. And we continue to see targeted growth with GBP 0.3 billion growth in both SME and Motor Finance, while the open mortgage book of GBP 267 billion is in line with the year-end position.

Finally, CET1 capital is up 50 basis points, reflecting 55 basis points of underlying business performance, partially offset by 5 basis points of negative market and other movements.

So as I said, we've made a strong start with increased profits and returns and higher capital. And we remain confident in our ability to deliver for 2018 and the longer term.

Now that's all I was going to say upfront. We'll turn now to Q&A. (Operator Instructions) Okay, with that, we'll open it up for questions.

Questions And Answers

Operator

(Operator Instructions) The first question comes from Raul Sinha.

Raul Sinha, Analyst

George, it's Raul here from JPMorgan. I'll try and limit myself to one single area, if that's okay. Can we talk about the NIM, please, in terms of improvement in the quarter?

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Raul Sinha, Analyst

I was wondering if you could give us a sense of the drivers of the improvement on the assets and the liabilities side and also, if you could clarify how much of the improvement in the NIM in the quarter was driven by any kind of reclassification of the overdraft treatment from other income to NII.

Mark George Clifford Culmer, CFO & Executive Director

Okay. Raul, yes, look, the OOI to NII, it's about GBP 20 million or so. So it's not a big indicator. The more -- in terms of improvement Q -- if I look Q1 onto the Q4, we're up about sort of 3 basis points, where assets relatively flat, actually, in terms of quarter-on-quarter. And it's mainly around the sort of liability spread of mix, where we've just picked up 2 or 3 basis points. So that's sort of what's been going on in terms of overall. We're pleased with the performance. We think it's a strong start. We talk around the sort of 290. I would say the market is currently -- it's trending higher than we were assuming in our plan. So we're pleased with the performance. It's very much a positive for the full year. But we're not actually going to be sort of changing our full year guidance yet. We're just a couple of months in. So we will be sticking to the around 290. But there's no doubt that it's a positive start to the year. And we're pleased with it. And we're running, I think, ahead of where we expected to be.

Raul Sinha, Analyst

Great. Can I just have a follow-up, George? Just on the NIM point, as you mentioned, what -- any thoughts on the timing of the rates hike? I think you're currently assuming that the rate hike -- there will be one rate hike this year in your estimate. And that's probably towards the back end of this year. Will an earlier rate hike have any kind of impact on the NIM, or would it actually not have much impact this year?

Mark George Clifford Culmer, CFO & Executive Director

Okay, Raul, this is not a good start to our questioning discipline. But -- yes. But as you know, yes, we have assumed in all our numbers, I think we just have one rate rise. We kind of moved to a house view of 2. But obviously, it sort of moves with every statement that you get out of the bank. But for us, all rate rises are positive. You're not going to see a sort of dramatic shift in our numbers, whether it's a sort of May and November or whether it's just November in the back end of the year. So I don't see (inaudible) -- obviously, a couple of rate rises would be in the long term, as they flow through into things like structural hedge, swap rates, et cetera, would be a positive. But it's not going to be a big swing factor on the 2018 result.

Operator

Your question -- next question is from Chris Manners.

Christopher Robert Manners, Co

George, just a couple of questions, if I may. The first one was maybe just to follow up on Raul's point on the rate rises. If we do get rate hikes, what sort of deposit beta are you looking to sort of pass through? I mean, how much of that rate hike would you pass on through to customers and how much do you think could benefit the margin? And the second question was just on earning assets. I mean, how much sort of a momentum in some of the great initiatives that you were talking about when we had the Strategy Day are you seeing? And how much sort of earning asset growth do you think we might get for the rest of this year because I suppose that was a little bit light?

Mark George Clifford Culmer, CFO & Executive Director

In terms of the assets growth, in terms of -- as we said in the call, that we're seeing good progress in terms of SME; quite tough in Mid Markets; continued good progress in Consumer Finance. We don't disclose the numbers. But we're showing very strong progress in corporate pensions. And we've started on-boarding the Zurich business. Mortgage markets stay tough, we've seen some recent rate increases. And you've seen us put some rates through. But they don't really sort of cover things like what's been going on in the swap market. So it stays a competitive market. And we will -- waiting to see what actually happens in terms of competitor activity in there going forward. But look, I won't give a specific number. But we're pleased with the momentum we've got and we've got a clear sense of direction. And AIEAs, it's slightly down, slightly down because, well, I think within the sort of low growth, Global Corporates it's off. But again, we don't set targets for Global Corporates. As we've previously said, it's much more sort of transaction and individual item based. So that's the sort of second bit. Sorry, what was your first part of the question, again? What was the very -- what was it about?

Christopher Robert Manners, Co

Yes. The first one was maybe you could help us think through a little bit. We've had one rate hike. How much of that rate hike did you pass through to your savers? And how do you think that's going to sort of develop as we get more rate hikes? Because it seemed to be a pretty benign outcome in terms of, I suppose, media activity, policymaker sort of moral persuasion and anything that they've got in terms of customer behavior. So maybe you could care to share with us, how much you passed through and whether you might be able to fade that number going forward.

Mark George Clifford Culmer, CFO & Executive Director

I think you've just used more than your allocated time, Chris. But the bit around -- look, in terms of passing, you wouldn't expect me to comment on what we might or might not do. We take those decision based upon circumstances at the time and the number of things that would go into us looking at the competitive position. So I'm not going to give you a certain percentage in terms of what we would expect to pass through. We will continue to manage the spread, as we do at present across the brands, looking at both sides of the balance sheet. And so I'm not going to sort of comment on what we might or might not do. It will be a decision for us at the time, depending on the circumstance, depending on competitor activity. But what I sort of can say, I mean, I'll go back to the comments that we gave -- first gave at 22nd February, that we continue with a very robust view our NIM progression. We've seen a great start. As I said, we're not changing guidance. But it is a positive for the full year. And we would very much stick to our wording we used, I think, back in February around resilience for the longer term. So...

Operator

Next question is from Joseph Dickerson.

Joseph Dickerson, Head of European Banks Research & Equity Analyst

(technical difficulty)

the impairment line between performance, between Retail and Commercial, I know that there's been -- and I don't know if you're exposed on a couple of corporate events still in the start to the year. So if there's any color you can give on the distinction between trends in corporate versus Retail, it'd be greatly appreciated.

Mark George Clifford Culmer, CFO & Executive Director

Sorry, Joe, we missed the first part of your question. What was the first half of the question? Apologies.

Joseph Dickerson, Head of European Banks Research & Equity Analyst

Oh, I think I just said that I had one question then.

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Joseph Dickerson, Head of European Banks Research & Equity Analyst

So basically...

Mark George Clifford Culmer, CFO & Executive Director

We missed that bit.

Joseph Dickerson, Head of European Banks Research & Equity Analyst

I just wanted to know the trends between -- if you can give us any color on...

Mark George Clifford Culmer, CFO & Executive Director

On what?

Joseph Dickerson, Head of European Banks Research & Equity Analyst

On distinction between Retail versus commercial credit.

Mark George Clifford Culmer, CFO & Executive Director

In terms -- look, as we say in the statement, there's no view and we're not seeing any signs of deterioration. Credit stays strong. And so that applies right across the book; particularly strong in credit. We're not standing on any exposures or whatever to any sort of fallen angels or any single names. So it continues to be very strong experience right across SME, Mid Market, Global Corporates, within the commercial line. So that's a continuing trend that we're seeing there. Similarly, stays strong in the Retail space as well. So in terms of secured, very strong performance. In unsecured, very strong performance. There were some very minor movements. And when I talk minor, I really do mean minor in terms of some of the charge-offs in unsecured. So things are going from GBP 2 million to GBP 3 million. But it's really at the fringes and starts from a very low base and is still very low. So it is strong across the piece. We have a whole suite of some early warning indicators that we use to look out. And we're not seeing any trend. We're seeing continued strong development in terms of performing. And it's strong experience across the commercial business and the across the Retail lines as well. And thank you for sticking to one, Joseph.

Operator

Next question is from Andrew Coombs.

Andrew Philip Coombs, Director

And let's just stay on the theme of asset quality. If I look at your gross loan loss ratio at 27 basis points, net 23...

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Andrew Philip Coombs, Director

I'd have expected that gap to narrow slightly over time. You still have 4 basis points. What's driving those write-backs? And in particular, with house price growth slowing going forward, do you think that gap will narrow?

Mark George Clifford Culmer, CFO & Executive Director

Between the gross and the net number, well, yes, I mean, we do expect there to be a closure. We would expect there to be continuing write-backs just because of, I think, our prudent way of actually reserving upfront. I mean, when you look at the numbers, I think we're GBP 270 million roughly and we were GBP 120 million last year in terms of pounds, shillings and pence, the delta between Q1 and Q1. There was a debt sale of about GBP 60 million last year; I think GBP 66 million. And MBNA has bought in, I think, about GBP 45 million. So those are the -- that gives you the sort of GBP 110 million of the GBP 120 million difference. We don't see -- in terms of house price, our expectation is still, for HPI, around about 2%, 3% in terms as we look out. So I'm not expecting that. And we're not seeing any form of deterioration whatsoever in the secured book. But -- so that's what we're seeing.

Operator

Next question is from Chris Cant.

Christopher Cant, Partner, United Kingdom and Irish Banks

If I could just ask on your other income, please.

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Christopher Cant, Partner, United Kingdom and Irish Banks

Could you give us an overview of the moving parts in terms of the quarter-over-quarter performance and, in particular, an update on your guidance from the Strategy Day for that to be flat, ex-VocaLink, year-over-year? It looks like you're running below that in the First Quarter. So just any update on your thoughts there would be appreciated.

Mark George Clifford Culmer, CFO & Executive Director

Yes. No, Chris, no, it's a good question. And yes, we are slightly behind. Going back to the first question, I think we're running ahead in terms of NII and we're slightly below in terms of OOI. And you're right, we've shared, back at the Strategy Day that we thought, ex-VocaLink, to be sort of -- '18 to be in line with '17. There's no doubt, as we look out today, I think that will be tougher to achieve. There's no doubt about that. When you look at Q1-on-Q1, I mean, we're down about GBP 70 million year-on-year. About GBP 35 million of that is general insurance. And that's particularly the weather claims in Q1, which it will be tough to get that back as we move through the year. About another GBP 25 million or so is bulk annuities. I think that is more timing. We're still very active in that market. We've got a good proposition. And I'd be hopeful of getting that back. A bit weaker in CB, some of the financial markets type flows are slightly off. And we'll see how trading develops. As you know, Q1 tends to be lower. Q2, well, in terms of overall, should pick up in terms of size of OOI. So it's definitely not 1.4 times 4. We'll pick up in terms of subsequent quarters. But as I said, weather, we won't get back; bulk annuities will be volatile, as we've always said. Commercial is a bit weaker. Let's see how the rest of the year pans out. But coming back to your original question, there's no doubt it's going to be tougher to hit the original guidance.

Operator

Your question next comes from John Cronin.

John Cronin, Financial Analyst

Just in relation to the Pillar 2A accomplishment...

Mark George Clifford Culmer, CFO & Executive Director

Oh, yes.

John Cronin, Financial Analyst

You previously guided that there could be potential for some reduction in the mix in time.

Mark George Clifford Culmer, CFO & Executive Director

Yes.

John Cronin, Financial Analyst

I suppose anything to update in that vein? Then just secondly, on PPI, a very quick one. We've heard some other companies talk about the run rate slowing considerably since January. Is that consistent with your own experience?

Mark George Clifford Culmer, CFO & Executive Director

Let's deal with PPI and come back to the 2A one because I think -- just PPI, first up, in terms of the GBP 90 million that we talk about, we've taken as it's sort of clearly understood. What that actually relates to is -- goes back a year in terms of Plevin. And there was a requirement to look at where you previously defended cases, to go back and say, "Would you still defend them under the Plevin rules in terms of unfair relationship given the levels of commission and value shares?" And we've gone back. And we're basically completing that exercise now. And the average cost per case is higher than we thought it was going to be, hence, the GBP 90 million.

(technical difficulty)

(entrusted) over there. In terms of reactives on PPI, we assume the 11,000 as everyone knows. Q1, slightly higher than that, about 12,000 we saw coming through. We don't see any sort of dramatic reduction, I would say. It's been pretty consistent. We're now into the second phase of the FCA campaign. Week 1 of that and they went from sort of 10, 11 up to about 14. This is the net claims per week. It's dropped to about 13. So there's a slight pickup. But it's well down on what we saw in terms of the first campaign coming through. So at the moment, running around 12; we assume about

11. And as you know, if I'm 1,000 now, by the end of August '19, per week, it's about GBP 200 million. But we'll continue to monitor that. On the 2A, yes, look, as you -- again, as we disclosed last year, it's 3% in terms of the CET1 portion. I'm presuming that the PRA will be working to a similar timetable. So we will be getting out either Q2 or Q3. In terms of where the 2A is this year, you probably know that there's going to be a dynamic 2A that's used in the stress test results coming out, which will be interesting. Look, as you know, it's limiting what we can say. But you know the components of that. And given the derisking that we continue to carry out. And that includes things like reducing our gilts exposure, where we continue to sell down, in terms of contributions into pension scheme, which we continue to make, that I would expect that, all other things being equal, there should be good pressures as to why that 2A should come down when we actually receive it from the PRA.

Operator

Your question, next one is from Martin Leitgeb.

Martin Leitgeb, Analyst

One question from my side, please. And I was just wondering with regard to unsecured credit in the industry more broadly and specifically regarding Lloyds. And the latest Bank of England credit condition survey shows that the availability of unsecured credit to household has decreased significantly in the First Quarter. And they attribute it to changing risk appetite and tighter underwriting criteria. And I was just wondering to what extent this is equally true for Lloyds and how it would impact your outlook for loan growth and risk cost within that segment.

Mark George Clifford Culmer, CFO & Executive Director

Martin, no, we don't see any dramatic shift. We think the actions that's been taken relate to other companies. And you'll recall from -- I think the FPC said back end of last year, they didn't see a systemic threat. But they did see that action needs to be taken on a company-by-company basis. And when you looked at some of the differentials in growth rates between the mainstream banks and some of the peripherals, there were some big deltas. And for us, whether it's loans, whether it's cards, excluding impact of MBNA, we're running at sort of low single digit. And I would expect that level to continue. Now all along, we start with a high-quality book. And we continue to flex in terms of looking at our underwriting criteria scores, cut-offs, introducing new credit ratings, gearing controls. So as part of BAU, we're always doing these sorts of things to make sure we maintain the high quality of our book. But I don't see that what has happened on a macro level and what the regulators talked about will have a particular impact upon our growth rates, which, as I said, have been in that low single digit. And I would expect to sort of continue around about that level because I don't think they were explicitly targeted at us.

Operator

Your question, next one is from the line of Jonathan Pierce.

Jonathan Richard Kuczynski Pierce, Analyst of Banks

Can I just ask a question on residual value risk, please, particularly given what's going on in the diesel market? You gave us an update on your residual value risk being about GBP 6 billion in June of last year. Has that changed very much since then? I was wondering if you could give us a bit more color on what percentage of expected residual values that represents. And maybe as a quick follow-on to that, what provision do you have against your residual value risk of GBP 6 billion or whatever the number is at the moment?

Mark George Clifford Culmer, CFO & Executive Director

Jonathan, yes, it's about GBP 7 billion within that. As we said, that is the sort of number. First, I'm going to this -- right up in the car prices. Yes. We've seen the sort of -- obviously, we see the declines in terms of new car sales. But actually, second half -- secondhand car sale prices are proving very resilient and I think that actually just kicked up very slightly in Q1. So we're still seeing that sort of GBP 300 profit per unit for private vehicles. It's about GBP 1,000 for commercial vans in terms of that. In terms of explicit provisions, I think we talk about seeing 100 or 200 that we do basically as a sort of post-model adjustment that we hold explicitly over and above the sort of modeled residual value and provisioning exposures. So we continue to monitor the heck out of this. And you know our quality, it continues to perform. And the used car values continue to hold up and which we see in the numbers that we're getting through at auction time.

Jonathan Richard Kuczynski Pierce, Analyst of Banks

And what sort of stress do you put against that in the stress test? Because the PRA, earlier this year, has sort of intimated it may look to put a much harsher stress on used car prices in this year's stress test?

Mark George Clifford Culmer, CFO & Executive Director

Well look, we do a whole range of stresses in terms of staying down -- coming down and then dropping down. So sort of 10% per annums. I forget which one we explicitly use in the stress test. But it's not just V. I look at Ls and a whole variety. And the magnitude in even the most extreme where things just continue to fall, fall, fall. And I haven't got the number. But -- and it's a manageable number in a very extreme scenario. So...

Operator

Next question is from (Jennifer Cook).

Unidentified Participant, Analyst

Just one on customer deposits. That came off a little bit in the quarter. Just wondering what drove that. And I guess depending on the nature, will that impact the structural hedge at all?

Mark George Clifford Culmer, CFO & Executive Director

(Jennifer), yes, I mean, you're talking about very slight movements, as you say. And so I think we were something like -- if I look at -- on the Retail side, I've got something like GBP 247 billion or so in terms of Retail savings, which actually was pretty much in line. I think the Commercial book was slightly down about GBP 146 billion plays GBP 148 billion. The reality is, when you look at the mix, you see what we're really doing in terms of how we manage the business. So if I look at that, if I go back to the Retail, the GBP 247 billion, if I go back to something like the start of 26 -- the end of 2016, it's about the same number. But within that, for example, fixed was GBP 45 billion. It's down to GBP 28 billion. Variable is now GBP 133 billion plays GBP 127 billion. And within that, our current accounts are now at about GBP 52 billion compared with GBP 46 billion. So within the Retail space, it's stayed pretty stable. But we've had a specific drive in terms of building current accounts not just for the relationships. But also, these are structural hedge-eligible deposits. And so within that stable bit, what we're able to do is continue to build that structural hedge. So as previously disclosed, I think we were GBP 165 billion I think at the full year, with a sort of 3.5-year duration. And we -- and what's happened now, we're about GBP 168 billion. And we're about 3.7 years. And I would expect to continue to be building that structural hedge. As I build that current account base towards the back end of this year, I move to that sort of 4-year duration as well. So what you see in terms of deposits is -- again, is how we're managing the books, relationship and so -- to maximize value. And so whilst it's a stable overall Retail savings, there are some quite big shifts that are taking place within that, not just between sort of tactical and relationship, between type of deposit and the value of the deposit to the business and the value to the business in terms of that relationship that it also brings.

Operator

And a few more questions. For your next question, Claire Kane.

Claire Kane, Research Analyst

I have a question on costs.

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Claire Kane, Research Analyst

So the operating costs were up 2% year-on-year.

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Claire Kane, Research Analyst

And I notice you're now putting the remediation above the line and incorporating that into your cost:income ratio, which, arguably, would enable you to have a better improvement in the cost:income ratio year-on-year.

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Claire Kane, Research Analyst

At least I didn't expect such a large remediation cost in '18 versus '17.

Mark George Clifford Culmer, CFO & Executive Director

Right.

Claire Kane, Research Analyst

I just wondered whether you could talk about the trends in the underlying operating expenses. And given we have a cost cap of GBP 8 billion in...

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Claire Kane, Research Analyst

2020...

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Claire Kane, Research Analyst

What the trend is towards that. And if also you could just update on the restructuring guidance around ring fencing. And I know we have MBNA. But all the other things, should we expect that to continue?

Mark George Clifford Culmer, CFO & Executive Director

Yes, Claire. Right, okay. Okay, I'm sorry that the remediation came as a surprise. We sort of called it out at the time of the strategy review. And we said we would take a remediation up above the line. And therefore, it's in the cost:income ratio. What we're also, though, sort of to -- so we didn't think we were guilty of the charge that you're still (legging) and in terms of saying your improvement will just come because your remediation will drop from 860 down to a sort of a much smaller longer-term run rate. And there always would be an element of run rate. And that's why we explicitly called out that sub-GBP 8 billion. And that sub-GBP 8 billion is the operating cost excluding the remediation. What I would also point out is, yes, the cost:income we've improved. And we've got jaws of 9%. The way we disclose it, you can also actually see net income is up 4%. And actually, operating cost excluding remediation is only up 2%. So I've got positive jaws excluding the remediation element as well. So you can see what's going on, on a -- if you like, an underlying basis. In terms of shape and trajectory, though, we are making the significant investments that we talked about and automating the business and driving through further efficiencies. And yes, they're going to drive that number down to below the 8. In terms of shape, though, I spend before I save. And also for 2018, MBNA -- now MBNA, the 2% is due entirely to MBNA. And ex-MBNA, I think operating costs -- no, I know operating costs are down year-on-year. But for 2018, I will have 12/12ths of MBNA cost as opposed to 5/12ths last year. So that gives us a bit of headline operating cost pressure. As I said, I will also be spending before I save. And all that spend, other than redundancy, will go through the operating cost line. So I would expect in terms of trajectory year-to-year-to-year, 2018, you're not going to see a lot of progress. You may have seen costs go up a bit simply because of that MBNA point. And then investment. And then they will come down. But we still have our commitment to ongoing positive jaws, et cetera. But that's the sort of overall shape you will see. Then below the line, again, we talked about it. This is sort of inclusive of 2018. We talked about another sort of 0.2 or 0.3 for ring-fencing. We talked about 0.1 for MBNA integration costs. We talked about 0.1 for, I think, property strategy. We didn't call out a number for any redundancy, which is the only restructuring cost we would take sort of below the line, simply because what happens on redundancy depends upon what happens in the business. And we haven't given a figure for FTE or redundancy, or anything like that. So below the line, ring-fencing will end 1/1/'19. MBNA is a sort of '18, bit of '19 as well, mainly an '18, though. Property, I think is split between a bit '18 and '19. So you see at the moment we've got -- I think it was 138 for the half year. But that sort of numbers. It comes to about a sort of 0.6, something like that I think for 2018.

Operator

Our next question is from Edward Firth.

Edward Hugo Anson Firth, Analyst

I just wanted to check, in the noninterest income line, what is in there for gilt sales, if anything?

Mark George Clifford Culmer, CFO & Executive Director

Oh, yes. No. There is. I mean, as we talked -- as we called out previously, we don't -- we're not a long-term holder of gilts in terms of capital, in terms of carry costs. They simply didn't make economic sense. We got charged for the 2A capital for asset swap risks. And we have -- since about the end of '16, we've sold about GBP 16.5 billion of gilts or so. But interesting one this, we've been selling into a tightening credit market. Whilst we've been realizing gains, actually, the residual gains on the book that we've got left has actually exceeded the level of gains that we've harvested. So actually, the gains that we're now showing unrealized are actually in excess of those that we started with. But in terms of the specific to your question, I think there's about GBP 81 million in Q1. And that compares to GBP 70 million in Q1 of 2017. And I think the aggregate number for 2017 was about GBP 250 million-ish, something of that order. And I think we will continue to be a seller. We'll probably be there or thereabouts for this year as well, I would have thought.

Edward Hugo Anson Firth, Analyst

Could you tell us what the -- what is the unrealized gain then? Have you -- I can't remember what that number is?

Mark George Clifford Culmer, CFO & Executive Director

The credit gain, it's about GBP 500 million. But there's a pull to par of GBP 200 million. But I think in the books, it's gone up by about GBP 500 million in terms of the impact of credit spreads coming through that gilt book. And there's about GBP 17 billion or so left.

Operator

Your next question is from Michael Helsby.

Michael Francis Helsby, MD and Co

I've got 2. It looks like you got time, if that's okay.

Mark George Clifford Culmer, CFO & Executive Director

That's good because we're done.

Michael Francis Helsby, MD and Co

Yes, oh right, well, I've got loads then. I was just wondering if you could tell me, within your Retail savings book...

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Michael Francis Helsby, MD and Co

How much of the balances are on bonus rates versus outside of bonus deals? And I was wondering if you could give us an update on the -- what the deposit yields were in the quarter, like you normally do. Then on the mortgage side, again, I was wondering if you could give us an update on the SVR, like you normally do. And if you could give us a view on your gross lending in the quarter in mortgages.

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Michael Francis Helsby, MD and Co

And also, if you could expand that by telling us what type of business you're doing by brand or by type and by -- through the direct IFA channel and, if you feel really generous, looking at LTV distributions. The reason for the question is because I've noticed you've got some very wild differences in your pricing by channel at the moment. So I'd be very keen to understand why you're doing the flow. And if you could give us what your -- the mortgage yield is at the moment. It's really important to understand the mortgage dynamics and, obviously, the group margin dynamics as we look forward.

Mark George Clifford Culmer, CFO & Executive Director

There's a lot of questions in there, Michael. And I'm not going to be able to answer all of those questions and particularly around some of the front book and in terms of bonus rates versus Basel rates. To answer, look, first off, in terms of backlog, mortgage market remains tough. And there's been some pricing up. So with --- I mean as said to an earlier question. But a lot of pricing up that we've seen simply compensates for things like what's happened on swap rate. In terms of our management of brand and our management of products, obviously, we always have to be incredibly aware that being as the market leader, the impact's on front book, back book. So in terms how we deploy our rates, in terms of how we actually deploy our brands and products, it always is with a view to the back book as well. That may be obvious. But it's worth reiterating. In terms of some specifics. So in Q1, I think new -- gross new business was just under GBP 10 billion; I think it was GBP 9.9 billion, which is about a sort of 16% market share. As I said, I think we've priced up about 20 basis points across the piece. But I think swap rates have sort of eaten into most of that. So it stays (inaudible). On the Retail side of things, total Retail rates are around about -- if I look at the savings rate, in total, it's about 39 basis points. And I think that was about 41 in terms of Q4. Then in terms of SVRs, we're still around about that 13% rate across the book. So whether I'm looking at the mortgage -- sorry, the Halifax rate products or in total, it was about 13.5%, I think, in Q4. And it remains about that rate in Q1. That's what we're actually seeing. But you're right. I mean it's -- in terms of price, in terms of what's going on in swap rates, in terms of where competition are moving on mortgages, in terms of deposits side of things, we're seeing a couple of people moving but nothing dramatic at the moment. But just keeping a watch on that as well.

Michael Francis Helsby, MD and Co

And just on the hedge, thanks for that comment that you gave in terms of how you expect to boost the size and the duration. Can you just tell us what the actual contribution from the hedge was in Q1 in billions and also as measured over LIBOR, like you normally do?

Mark George Clifford Culmer, CFO & Executive Director

Over LIBOR, it was about 1%, I think. So I won't give you the billions. But it was about 1%. It's not the hardest math to work out to what you think the number will be. But it was about 1% of the LIBOR.

Operator

Your question next comes from David Lock.

David John Lock, Research Analyst

George, just one really on your investment spend. So you've said you're going to be investing GBP 3 billion.

Mark George Clifford Culmer, CFO & Executive Director

Yes.

David John Lock, Research Analyst

I just wondered if you could call out how much you've spent this quarter and how much of that was in the expenses line and how much of it went on the intangibles. I know that they've gone up very slightly. It looks like the intangibles went up very slightly this quarter.

Mark George Clifford Culmer, CFO & Executive Director

Okay. I don't have the precise number to hand. But yes, in terms of capitalization, we will capitalize (between) sort of 50% to 60%. And a portion of that capitalization would be intangibles. And some would be sort of good old tangible-type assets. In terms of aggregate spend, I don't have a figure to hand in terms of what we've spent in the quarter. But we may give an indication at H1 perhaps in terms of aggregate spend. But you may have wait until then.

David John Lock, Research Analyst

It'd just be really helpful just to try and iron out any lumpiness in the expenses lines...

Mark George Clifford Culmer, CFO & Executive Director

Yes.

David John Lock, Research Analyst

In the course of the quarter.

Mark George Clifford Culmer, CFO & Executive Director

Yes. I mean, we are -- I mean, it's not just blah in terms of making a good start to the piece in terms of the things that we've achieved right about the GSR3. So whether it's in terms of in-branch tablets, whether it's about replatforming our base mobile application, whether it's the open banking, whether it's the single customer view that we've talked about, transitioning customers from SME to business banking, pilots of machine learning. There is a whole load of things that are going on that are part of investing for this bank and part of making sure that we continue to win and compete as we move forward into this digital world. So there has been an absolute -- there's no slow start to this, this is full on in terms of transformation.

Operator

And our next question is from Robin Down.

Robin Down, Co

Actually, I think Michael's asked my question. I think he's probably asked most people's questions. Can I just make one point though?

Mark George Clifford Culmer, CFO & Executive Director

Yes, go.

Robin Down, Co

You're limiting the call to 45 minutes of Q&A. I mean, this is the best opportunity most people on the sale side get to ask questions. And I can tell you, you -- it sounds like you're under pressure as well in terms of answering it. So maybe just in future quarters, can I make a request that we can perhaps have an hour or even slightly longer? I think it'd be quite useful for us because it's -- whilst the business is simpler now...

Mark George Clifford Culmer, CFO & Executive Director

Yes.

Robin Down, Co

There are still quite a lot of detail I think we haven't been able to go through in terms of movements of CET1 and TNAV, et cetera. So I'll leave it at that.

Mark George Clifford Culmer, CFO & Executive Director

Right. All right, Robin, thank you for that. Okay, I think that is actually the last question.

Operator

It was the last question, yes.

Mark George Clifford Culmer, CFO & Executive Director

Okay then. Thanks you ever so much, everyone, for dialing in today. And while shorter. And I hear what you say, Robin, I hope you found that useful. And thank you for your call-in. And thanks for joining the call.

Operator

Thank you very much. Ladies and gentlemen, that concludes the Lloyds Banking Group Q1 2018 Interim Management Statement Conference Call. You may now disconnect. Have a good day.