Lloyds Banking Group plc
Form 6-K
August 03, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

3 AUGUST 2018

Commission File number 001-15246

LLOYDS BANKING GROUP plc

(Translation of registrant s name into English)

25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (1) o.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (7) o.

This report on Form 6-K shall be deemed incorporated by reference into the company s Registration Statement on Form F-3 (File Nos. 333-211791 and 333-211791-01) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Table of Contents

EXPLANATORY NOTE

This report on Form 6-K contains the interim report of Lloyds Banking Group plc, which includes the unaudited consolidated interim results for the half-year ended 30 June 2018, and is being incorporated by reference into the Registration Statement with File Nos. 333-211791 and 333-211791-01.

Table of Contents

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the half-year ended 30 June 2018.

IFRS 9 and IFRS 15: On 1 January 2018, the Group implemented IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers . As permitted by IFRS 9 and IFRS 15, comparative information for previous periods has not been restated.

Statutory basis: Statutory information is set out on pages 2 to 5. However, a number of factors have had a significant effect on the comparability of the Group s financial position and results. Accordingly, the results are also presented on an underlying basis.

Underlying basis: These results are adjusted for certain items which are listed below, to allow a comparison of the Group s underlying performance.

- restructuring, including severance-related costs, the costs of implementing regulatory reform including ring-fencing, the rationalisation of the non-branch property portfolio, the integration of MBNA and Zurich s UK workplace pensions and savings business;
- volatility and other items, which includes the effects of certain asset sales, the volatility relating to the Group s own debt and hedging arrangements and that arising in the insurance businesses, insurance gross up, the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets;
- payment protection insurance provisions.

Unless otherwise stated, income statement commentaries throughout this document compare the half-year ended 30 June 2018 to the half-year ended 30 June 2017, and the balance sheet analysis compares the Group balance sheet as at 30 June 2018 to the Group balance sheet as at 31 December 2017.

The comparative information included in the consolidated financial statements presented in this Form 6-K differs from the comparative information provided in the Group s UK results for the six months ended 30 June 2018. As reported in the Company s 2016 Form 20-F, an adjusting post balance sheet event that occurred between the signing of the Group s 2016 UK Annual Report and Accounts and its 2016 Form 20-F resulted in the charge recognised in respect of PPI complaints in the Company s 2016 Form 20-F being £350 million greater than that recorded in the Group s 2016 UK Annual Report and Accounts. Consequently, the charge recognised by the Group in its UK basis results for the first quarter of 2017 was £350 million greater than on a US basis. Since 31 March 2017, the Group has reported the same net assets on a US basis and on a UK basis.

Table of Contents

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and / or results 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. Words such as believes , anticipates , estimates , expects , intends , aims , potential , will , would , could , considered variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such 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.

Examples of such forward looking statements include, but are not limited to: projections or expectations of Lloyds Banking Group s future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; Lloyds Banking Group s future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of Lloyds Banking Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

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 Lloyds Banking 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 Lloyds Banking Group 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 the exit by the UK from the European Union (EU) 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 Lloyds Banking 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, 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 Lloyds Banking Group s control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the United States or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of Lloyds Banking Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by Lloyds Banking Group s directors, management or employees including industrial action; changes to Lloyds Banking 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 Lloyds Banking 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 with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of the date hereof, and Lloyds Banking 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 Lloyds Banking 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.

Table of Contents

CONTENTS

Table of Contents

SUMMARY OF RESULTS

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m	Change since 30 June 2017 %	Half-year to 31 Dec 2017 £m
Statutory results (IFRS)				
Total income, net of insurance claims	**9,571**	9,299	***3***	9,360
Total operating expenses	**(5,998)**	(6,202)	***3***	(6,144)
Trading surplus	**3,573**	3,097	***15***	3,216
Impairment	**(456)**	(203)		(485)
Profit before tax	**3,117**	2,894	***8***	2,731
Profit attributable to ordinary shareholders	**2,025**	1,739	***16***	1,653
Basic earnings per share	**2.9p**	2.5p	***16***	2.4p
Dividends per share	**1.07p**	1.0p		2.05p
Underlying basis (page 6)				
Underlying profit(1)	**4,234**	3,952	***7***	3,676

Capital and balance sheet	At 30 June 2018	At 1 January 2018 (adjusted)(2)	At 31 Dec 2017	Change since 31 Dec 2017 %
Statutory				
Loans and advances to customers(3)	**£442bn**	£444bn	£456bn	(3)
Customer deposits(4)	**£418bn**	£416bn	£416bn	
Loan to deposit ratio(5)	**106%**	107%	110%	(4.1)pp
Common equity tier 1 ratio(6)	**14.1%**	14.0%	14.1%	
Tier 1 capital ratio(6)	**17.1%**	17.2%	17.2%	(0.1)pp
Total capital ratio(6)	**21.6%**	21.2%	21.2%	0.4pp
Risk-weighted assets(6)	**£211bn**	£211bn	£211bn	

(1) Prior periods restated to include remediation.

(2) Adjusted to reflect the impact of applying IFRS 9 from 1 January 2018, with transitional arrangements applied for capital.

(3) Excludes reverse repos of £26.7 billion (31 December 2017 and 1 January 2018: £16.8 billion).

(4) Excludes repos of £4.0 billion (31 December 2017 and 1 January 2018: £2.6 billion).

(5) Loans and advances to customers (excluding reverse repos) divided by customer deposits (excluding repos).

(6) Reported on the CRD IV transitional basis.

1

Table of Contents

STATUTORY INFORMATION (IFRS)

CONSOLIDATED INCOME STATEMENT

	Half-year to 30 June 2018 £ million	**Half-year to 30 June 2017 £ million**	**Half-year to 31 Dec 2017 £ million**
Interest and similar income	**8,032**	7,861	8,145
Interest and similar expense	**(2,025)**	(2,659)	(2,435)
Net interest income	**6,007**	5,202	5,710
Fee and commission income	**1,372**	1,518	1,447
Fee and commission expense	**(674)**	(670)	(712)
Net fee and commission income	**698**	848	735
Net trading income	**1,522**	5,843	5,974
Insurance premium income	**4,815**	4,099	3,831
Other operating income	**1,238**	1,283	712
Other income	**8,273**	12,073	11,252
Total income	**14,280**	17,275	16,962
Insurance claims	**(4,709)**	(7,976)	(7,602)
Total income, net of insurance claims	**9,571**	9,299	9,360
Regulatory provisions	**(807)**	(1,240)	(925)
Other operating expenses	**(5,191)**	(4,962)	(5,219)
Total operating expenses	**(5,998)**	(6,202)	(6,144)
Trading surplus	**3,573**	3,097	3,216
Impairment	**(456)**	(203)	(485)
Profit before tax	**3,117**	2,894	2,731
Taxation	**(850)**	(905)	(823)
Profit for the period	**2,267**	1,989	1,908
Profit attributable to ordinary shareholders	**2,025**	1,739	1,653
Profit attributable to other equity holders	**205**	209	206
Profit attributable to equity holders	**2,230**	1,948	1,859
Profit attributable to non-controlling interests	**37**	41	49
Profit for the period	**2,267**	1,989	1,908

Table of Contents

SUMMARY CONSOLIDATED BALANCE SHEET

	At 30 June 2018 £m	At 1 Jan 2018(1) £m	At 31 Dec 2017 £m
Assets			
Cash and balances at central banks	**67,948**	58,521	58,521
Financial assets at fair value through profit or loss	**172,361**	176,008	162,878
Derivative financial instruments	**26,955**	25,474	25,834
Loans and advances to banks	**6,674**	4,246	6,611
Loans and advances to customers	**469,025**	461,016	472,498
Debt securities	**4,281**	3,314	3,643
Financial assets at amortised cost	**479,980**	468,576	482,752
Financial assets at fair value through other comprehensive income	**31,300**	42,917	
Available-for-sale financial assets			42,098
Other assets	**51,235**	39,686	40,026
Total assets	**829,779**	811,182	812,109
Liabilities			
Deposits from banks	**30,934**	29,804	29,804
Customer deposits	**421,609**	418,124	418,124
Financial liabilities at fair value through profit or loss	**45,777**	50,935	50,877
Derivative financial instruments	**25,561**	26,124	26,124
Debt securities in issue	**90,293**	72,402	72,450
Liabilities arising from insurance and investment contracts	**118,703**	118,860	118,860
Subordinated liabilities	**17,637**	17,922	17,922
Other liabilities	**30,722**	29,059	28,805
Total liabilities	**781,236**	763,230	762,966
Shareholders equity	**42,940**	42,360	43,551
Other equity instruments	**5,355**	5,355	5,355
Non-controlling interests	**248**	237	237
Total equity	**48,543**	47,952	49,143
Total equity and liabilities	**829,779**	811,182	812,109

(1) Adjusted to reflect the implementation of IFRS 9 and IFRS 15.

Table of Contents

REVIEW OF RESULTS

Income statement

During the half year to 30 June 2018, the Group recorded a profit before tax of £3,117 million, an increase of £223 million, or 8 per cent, compared to a profit before tax in the half year to 30 June 2017 of £2,894 million.

Total income, net of insurance claims, increased by £272 million, or 3 per cent, to £9,571 million in the half year to 30 June 2018 compared with £9,299 million in the half year to 30 June 2017, comprising an £805 million increase in net interest income and a decrease of £533 million in other income, net of insurance claims.

Net interest income was £6,007 million in the half year to 30 June 2018; an increase of £805 million, or 15 per cent, compared to £5,202 million in the half year to 30 June 2017. There was a significant reduction in the amounts payable to unit holders in those Open-Ended Investment Companies (OEICS) included in the consolidated results of the Group from an expense of £743 million in the half year to 30 June 2017 to an expense of £212 million in the half year to 30 June 2018. This decrease reflects investment performance in the period and is offset by lower other income, net of insurance claims. In 2018, the Group recognised £212 million (2017: £743 million) that was attributable to third party investors in respect of its consolidated OEICs as a result of positive market movements in the year to date, with market returns ranging from 5.7 per cent to (6.6) per cent. The change in population of consolidated OEICs in 2017 to 2018 did not have a significant impact on this figure, contributing a net decrease of £4 million attributable to third party investors. Amounts recognised that are attributable to third party investors have no impact on the Company s ordinary shareholders as a compensating charge is recognised in net interest income, reflecting the amounts payable to the OEIC unitholders. Excluding the amounts attributable to OEIC unit holders, net interest income was £6,219 million in the half year to 30 June 2018; an increase of £274 million, or 5 per cent, compared to £5,945 million in the half year to 30 June 2017 as a result of margin improvements due to lower deposit and wholesale funding costs, more than offsetting continued asset pricing pressure. The margin also benefitted from changing product mix and growth in consumer finance, including the acquisition of MBNA.

Other income, net of insurance claims, was £533 million lower at £3,564 million in the half year to 30 June 2018 compared to £4,097 million in the half year to 30 June 2017. There were reduced gains within trading income on policyholder assets in the insurance business, as a result of market performance over the period, particularly in equities, but this was offset by a lower level of insurance claims and also the reduced amounts attributable to OEIC unit holders within net interest income. Adjusting for the amounts included within net interest income, other income, net of insurance claims, was £3,352 million in the half year to 30 June 2018, little changed from £3,354 million in the half year to 30 June 2017. There was a £150 million reduction in net fee and commission income, in part reflecting lower income as a result of the changes to overdraft charging announced in July 2017, which took effect in November. Insurance premium income was £716 million, or 17 per cent, higher at £4,815 million in the half year to 30 June 2018 compared to £4,099 million in the half year to 30 June 2017 as a result of a number of bulk annuity deals recognised in the current period. Other operating income was £45 million, or 4 per cent, lower at £1,238 million in the half year to 30 June 2018 compared to £1,283 million in the half year to 30 June 2017; the half-year to 30 June 2017 included a gain of £146 million on the sale of the Group s investment in Vocalink.

Operating expenses decreased by £204 million, or 3 per cent, to £5,998 million in the half year to 30 June 2018 compared with £6,202 million in the half year to 30 June 2017, with an increase of £75 million reflecting the acquisition of MBNA and an increase in restructuring costs being offset by underlying cost efficiencies and a lower level of conduct charges. Conduct charges in the half year to 30 June 2018 totalled £807 million (compared to £1,240 million in the half-year to 30 June 2017) and include a Payment Protection Insurance charge of £550 million which now reflects claims volumes of approximately 13,000 per week until the deadline in August 2019, compared to the 11,000 run-rate previously assumed.

Impairment losses increased by £253 million to £456 million in the half year to 30 June 2018 compared with £203 million in the half year to 30 June 2017, reflecting lower releases and write-backs and the acquisition of MBNA. Asset quality remains strong.

Balance sheet and capital

Total assets were £17,670 million, or 2 per cent, higher at £829,779 million at 30 June 2018 compared to £812,109 million at 31 December 2017. Loans and advances to customers were adjusted on adoption of IFRS 9, resulting in a reduction of £11,482 million to £461,016 million primarily due to the reclassification of certain assets to fair value through profit or loss due to the nature of the contractual cash flows. Taking into account this adjustment, loans and advances to customers increased in the half year to £469,025 million as a result of

Table of Contents

increased holdings of reverse repurchase agreement balances and continued growth in targeted segments such as SME and motor finance more than offsetting a reduction of some £4 billion on sale of the Group s Irish residential mortgage portfolio; the open mortgage book remained broadly stable. Financial assets held at fair value through profit or loss increased by £13,130 million to £176,008 million on transition to IFRS 9, but have subsequently reduced to £172,361 million in the half year. Financial assets held at fair value through other comprehensive income have reduced following sales of part of the Group s gilt holdings.

Customer deposits were £3,485 million higher at £421,609 million at 30 June 2018 compared to £418,124 million at 31 December 2017 as a £1,413 million increase in repurchase agreement balances and seasonal growth in current account balances have been more than offset by reductions in maturing retail savings products.

The Group s transitional common equity tier 1 (CET 1) capital ratio remained at 14.1 per cent at 30 June 2018, compared to 14.1 per cent at 31 December 2017, reflecting profit generation, the receipt of the dividend paid by the Insurance business in February 2018, a reduction in the deferred tax asset deducted from capital and a substantial reduction in excess expected losses resulting from the partial absorption of the increase in impairment provisions following the adoption of IFRS 9. This has been offset by the accrual for foreseeable dividends in respect of the first half of 2018, share buybacks completed during the period and the accrual for the remaining share buyback, the impact on retained earnings following the adoption of IFRS 9 (net of transitional relief), movements through the fair value through other comprehensive income reserve and an increase in intangible assets deducted from capital. The transitional tier 1 capital ratio reduced to 17.1 per cent primarily reflecting the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments. The total transitional capital ratio increased to 21.6 per cent, largely reflecting the issuance of new dated subordinated debt instruments, foreign exchange movements and the increase in CET 1 capital, partially offset by the amortisation of dated tier 2 instruments.

Risk-weighted assets reduced by £230 million to £210,689 million at 30 June 2018, compared to £210,919 million at 31 December 2017, reflecting continued active portfolio management and the sale of a strategic equity investment, foreign exchange movements and a reduction in CVA and operational risks, largely offset by targeted growth in key customer segments, model changes within the mortgage portfolios and an increase in market risk.

Table of Contents

SEGMENTAL ANALYSIS OF PROFIT BEFORE TAX BY DIVISION (UNAUDITED)

Underlying basis

	Half-year to 30 June 2018 £ million	**Half-year to 30 June 2017 £ million**	**Half-year to 31 Dec 2017 £ million**
Retail	**2,164**	1,902	1,868
Commercial Banking	**1,166**	1,228	1,003
Insurance	**480**	429	470
Other	**424**	393	335
Underlying profit before tax	**4,234**	3,952	3,676

The Group Executive Committee (GEC), which is the chief operating decision maker for the Group, reviews the Group s internal reporting based around these segments (which reflect the Group s organisational and management structures) in order to assess the Group s performance and allocate resources; this reporting is on an underlying profit before tax basis. The GEC believes that this basis better represents the performance of the Group. IFRS 8 *Operating Segments* requires that the Group present its segmental profit before tax on the basis reviewed by the chief operating decision maker that is most consistent with the measurement principles used in measuring the Group s statutory profit before tax. Accordingly, the Group presents its segmental underlying basis profit before tax in note 2 on page 52 of its financial statements in compliance with IFRS 8 *Operating Segments*.

The aggregate total of the underlying basis segmental results constitutes a non-GAAP measure as defined in the United States Securities and Exchange Commission s Regulation G. Management uses the aggregate underlying profit before tax, a non-GAAP measure, as a measure of performance and believes that it provides important information for investors because they are comparable representations of the Group s performance. Profit before tax is the comparable GAAP measure to aggregate underlying profit before tax; the following table sets out the reconciliation of this non-GAAP measure to its comparable GAAP measure.

Table of Contents

GROUP PROFIT RECONCILIATIONS

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m	Half-year to 31 Dec 2017 £m
Underlying profit	**4,234**	3,952	3,676
Restructuring	**(377)**	(321)	(300)
Volatility and other items			
Market volatility and asset sales	**34**	136	143
Amortisation of purchased intangibles	**(53)**	(38)	(53)
Fair value unwind and other	**(171)**	(135)	(135)
	(190)	(37)	(45)
Payment protection insurance provision	**(550)**	(700)	(600)
Profit before tax statutory	**3,117**	2,894	2,731

Restructuring costs of £377 million included £155 million for severance costs relating to the Group s strategic investment plans as well as the costs of the integration of MBNA and Zurich s UK workplace pensions and savings business, implementing regulatory reform and ring-fencing and the rationalisation of the non-branch property portfolio.

Market volatility and asset sales of £34 million included positive banking and insurance volatility, partly offset by the £105 million loss on sale of the Irish mortgage portfolio and an adjustment to past service pension liability.

The PPI charge of £550 million included an additional £460 million in the second quarter and now covers claims volumes of approximately 13,000 per week until the deadline in August 2019, compared to the 11,000 run rate previously assumed.

Table of Contents

DIVISIONAL RESULTS

RETAIL

Retail offers a broad range of financial service products, including current accounts, savings, mortgages, credit cards, motor finance and unsecured loans to personal and business banking customers. Its aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value to customers, and by providing them with greater choice and flexibility. Retail operates a multi-brand and multi-channel strategy and continues to simplify the business and provide more transparent products, helping to improve service levels and reduce conduct risks.

Progress against strategic priorities

Delivering a leading customer experience

- Opened the new Halifax flagship branch, offering the latest in banking technology, and introduced eight new mobile branches taking the total to 36, helping reach more remote and rural communities across 190 locations
- Maintained position as the UK s largest digital bank with 13.8 million digital customers and 9.8 million mobile users
- Delivery of an enhanced Lex Autolease driver portal, enabling a more streamlined customer experience through a self-serve platform
- Shortened the branch mortgage application process by two days, due to a number of initiatives, including faster document processing and the roll out of automated valuations

Digitising the Group

- The first major UK bank to successfully deliver Open Banking, enhanced by re-platforming our mobile app, enabling improved functionality and delivery of future capabilities
- Launched new dynamic personal loan tool, providing customers with online eligibility checker and personalised price functionality

Maximising the Group s capabilities

- Extended the successful Jaguar Land Rover partnership until the end of 2020
- Invested significantly in additional mortgage advisors, increasing customer facing capacity by over 10 per cent and the number of branches equipped to offer remote appointments doubling to 100

Transforming ways of working

- Colleagues completed over 200,000 hours of learning, further developing the skills and capabilities required for the future

Financial performance

- Underlying profit increased 14 per cent to £2,164 million
- MBNA has performed ahead of expectations, and integration is expected to complete ahead of schedule in the first quarter of 2019
- Net interest income increased 8 per cent reflecting a 14 basis points improvement in net interest margin. The benefits of MBNA and lower funding costs, more than offsetting ongoing mortgage pricing pressure
- Other income was 5 per cent lower following changes to overdraft charging which took effect in November, more than offsetting fleet growth in Lex Autolease, which also drives growth in operating lease depreciation
- Operating costs increased 3 per cent to £2,410 million. Excluding MBNA, costs were down 1 per cent as efficiency savings more than offset increased investment and inflationary pressure
- Remediation reduced to £91 million driven by lower provision charges across existing programmes
- Impairment charges increased 77 per cent to £461 million and the asset quality ratio increased 11 basis points to 27 basis points, both reflecting lower debt sales and recoveries and the inclusion of MBNA
- Loans and advances increased to £340.8 billion with the transfer of Business Banking balances from Commercial Banking and growth in Black Horse, being partly offset by reductions in the closed mortgage book. Open mortgage book balances were flat in the first half
- Customer deposits remained broadly flat, excluding the transfer of Business Banking relationship balances
- Risk-weighted assets increased 2 per cent to £93.2 billion, reflecting balance growth and changing mix, along with model refinements

Table of Contents

Performance summary

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017(1) £m	Change %	Half-year to 31 Dec 2017(1) £m	Change %
Net interest income	**4,514**	4,182	*8*	4,524	
Other income	**1,089**	1,148	*(5)*	1,073	*1*
Total income	**5,603**	5,330	*5*	5,597	
Operating lease depreciation	**(477)**	(449)	*(6)*	(498)	*4*
Net income	**5,126**	4,881	*5*	5,099	*1*
Operating costs	**(2,410)**	(2,349)	*(3)*	(2,517)	*4*
Remediation	**(91)**	(370)	*75*	(263)	*65*
Total costs	**(2,501)**	(2,719)	*8*	(2,780)	*10*
Impairment	**(461)**	(260)	*(77)*	(451)	*(2)*
Underlying profit(2)	**2,164**	1,902	*14*	1,868	*16*
Banking net interest margin	**2.69%**	2.55%	*14bp*	2.65%	*4bp*
Average interest-earning banking assets	**£ 342.0bn**	£ 334.3bn	*2*	£ 342.7bn	
Asset quality ratio	**0.27%**	0.16%	*11bp*	0.26%	*1bp*
Return on risk-weighted assets(2)	**4.74%**	4.33%	*41bp*	3.98%	*76bp*

	At 30 June 2018 £bn	At 1 Jan 2018 (adjusted)(1),(3) £bn	Change %	At 31 Dec 2017 (reported)(1) £bn	Change %
Open mortgage book	**267.1**	267.0		267.1	
Closed mortgage book	**22.2**	23.6	*(6)*	23.6	*(6)*
Credit cards	**18.5**	17.9	*3*	18.1	*2*
Loans	**7.8**	7.8		7.9	*(1)*
UK Motor Finance	**13.9**	13.5	*3*	13.6	*2*
Europe(4)	**7.2**	7.1	*1*	7.1	*1*
Business Banking(5)	**1.9**	0.9		0.9	
Other(1)	**2.2**	2.3	*(4)*	2.4	*(8)*
Loans and advances to customers	**340.8**	340.1		340.7	
Operating lease assets	**4.7**	4.7		4.7	
Total customer assets	**345.5**	344.8		345.4	
Relationship balances	**241.8**	240.0	*1*	240.0	*1*
Tactical balances	**12.8**	13.1	*(2)*	13.1	*(2)*
Customer deposits(1),(5)	**254.6**	253.1	*1*	253.1	*1*
Risk-weighted assets	**93.2**	91.4	*2*	91.4	*2*

---

(1) Prior periods restated to include run-off.

(2) Prior periods restated to include remediation.

(3) Adjusted to reflect the impact of applying IFRS 9 from 1 January 2018.

(4) Includes the Netherlands mortgage lending business.

(5) SME portfolio within Commercial Banking re-segmented moving £1.0 billion of loans and advances to customers and £2.0 billion of customer deposits to Retail Business Banking. Prior period not restated.

Table of Contents

COMMERCIAL BANKING

Commercial Banking has a client-led, low risk, capital efficient strategy, helping UK-based clients and international clients with a link to the UK. Through its four client facing segments SME, Mid Markets, Global Corporates and Financial Institutions it provides clients with a range of products and services such as lending, transactional banking, working capital management, risk management and debt capital markets services.

Progress against strategic priorities

Commercial Banking is committed to supporting the financing needs of key client segments, continuing to invest in capabilities and digital propositions in order to deliver a leading customer experience supported by increasingly productive relationship managers. In the first half of 2018 we successfully launched Lloyds Bank Corporate Markets (LBCM), the Group s non ring-fenced bank.

Delivering a leading customer experience

- Awarded Business Bank of the Year at the FDs Excellence Awards for the 14th consecutive year; with an overall satisfaction rating of nine out of ten

Digitising the Group

- Launched the digital eligibility and pricing tool, enabling SME clients to understand instantly how likely they are to be approved for a loan or overdraft of up to £25,000 before they apply

- Piloted Invoice Finance Online, a new mobile enabled portal giving clients access to faster payments, flexible processing and functionality to create their own reports

Maximising the Group s capabilities

- On target to achieve £2 billion growth in net lending to start-ups, SMEs and Mid Market clients in 2018, supported by initiatives such as the £100 million lending fund for SMEs linked to the construction of EDF Energy s Hinkley Point C power station, which will provide low-carbon electricity for around 6 million homes

- Launched a £500 million fund for housing associations, supporting the Government pledge to deliver 300,000 houses each year by the middle of the next decade. Committed £750 million in 2018 for social housing projects, contributing to the Group s commitment to enable more people in Britain to get a home

Transforming ways of working

- Created the Customer Contact Portal, a digital tool to capture customer information in one place, enabling colleagues to provide proactive support, improve engagement and better serve customer needs across the Group

- Further re-segmented the SME portfolio, moving 30,000 clients with a turnover of £3 million or less to Business Banking in Retail. Through investment in new technology, the Group has responded to changing client preferences, and can effectively manage day-to-day banking needs of smaller clients through the direct relationship manager capability

Financial performance

- Net interest income of £1,497 million has remained stable supported by improved net interest margin following continued optimisation of the lending portfolio as well as increased high quality transactional deposits

- Other income showing good momentum, 4 per cent higher than previous six months, at £840 million. The first half of 2017 included a number of significant refinancing and hedging transactions

- Improved return on risk-weighted assets of 2.71 per cent, up 5 basis points driven by a reduction in risk-weighted assets following further optimisation

- Operating lease depreciation reduced following accelerated charges in prior year

- Operating costs 2 per cent lower reflecting efficiency initiatives offsetting higher investment

- Asset quality ratio of 2 basis points reflecting strong credit quality across the portfolio, with the slight increase in the first half of 2018 primarily driven by lower releases and write-backs. The second half of 2017 included a single large corporate impairment

- Continued lending growth in SME of 2 per cent, including loans and advances now transferred to Business Banking

- Increased customer deposits at £148.5 billion, reflecting continued success in attracting high quality transactional deposit balances

Table of Contents

Performance summary

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017(1) £m	Change %	Half-year to 31 Dec 2017(1) £m	Change %
Net interest income	**1,497**	1,488	*1*	1,542	*(3)*
Other income	**840**	994	*(15)*	804	*4*
Total income	**2,337**	2,482	*(6)*	2,346	
Operating lease depreciation	**(20)**	(45)	*56*	(60)	*67*
Net income	**2,317**	2,437	*(5)*	2,286	*1*
Operating costs	**(1,061)**	(1,085)	*2*	(1,145)	*7*
Remediation	**(75)**	(125)	*40*	(48)	*(56)*
Total costs	**(1,136)**	(1,210)	*6*	(1,193)	*5*
Impairment	**(15)**	1		(90)	*83*
Underlying profit(2)	**1,166**	1,228	*(5)*	1,003	*16*
Banking net interest margin	**3.32%**	3.29%	*3bp*	3.27%	*5bp*
Average interest-earning banking assets	**£ 90.3bn**	£ 91.4bn	*(1)*	£ 90.7bn	
Asset quality ratio	**0.02%**		*2bp*	0.20%	*(18)bp*
Return on risk-weighted assets(2)	**2.71%**	2.66%	*5bp*	2.23%	*48bp*

	At 30 June 2018 £bn	At 1 Jan 2018 (adjusted)(1),(3) £bn	Change %	At 31 Dec 2017 (reported)(1) £bn	Change %
SME(4)	**29.6**	30.1	*(2)*	30.7	*(4)*
Mid-Markets	**30.1**	29.4	*2*	34.2	*(12)*
Other(5)	**37.6**	39.8	*(6)*	44.6	*(16)*
Loans sold to Insurance business(6)				(6.7)	
Loans and advances to customers	**97.3**	99.3	*(2)*	102.8	*(5)*
SME including Retail Business Banking	***31.5***	*31.0*	*2*	*31.6*	
Customer deposits(1),(4)	**148.5**	148.3	*1*	148.3	*1*
Risk-weighted assets	**86.2**	88.1	*(2)*	88.1	*(2)*

(1) Prior periods restated to include run-off.

(2) Prior periods restated to include remediation.

(3) Adjusted to reflect the impact of applying IFRS 9 from 1 January 2018.

(4) SME portfolio re-segmented moving £1.0 billion of loans and advances to customers and £2.0 billion of customer deposits to Retail Business Banking. Prior periods not restated.

(5) Mainly lending to Global Corporates and Financial Institutions clients. As part of the Lloyds Bank Corporate Markets launch c.£2 billion of loans and advances to customers moved to Group Corporate Treasury.

(6) At 31 December 2017 the customer segment balances included lower risk loans that were originated by Commercial Banking and subsequently sold to the Insurance business to back annuitant liabilities. These loans were reported in Central items but included in table to aid comparison with prior periods. Since the implementation of IFRS 9 these loans are no longer classified as loans and advances to customers.

Table of Contents

INSURANCE AND WEALTH

Insurance and Wealth offers insurance, investment and wealth management products and services. It supports c.10 million customers with total customer assets under administration of £151 billion and annualised annuity payments to customers in retirement of c.£1 billion. Its strategic aim is to be the best insurer and wealth management business in the UK and it is committed to providing trusted, value for money products and services to meet the needs of its customers.

Progress against strategic initiatives

The Group continues to direct significant investment towards developing Insurance and Wealth, seeking to capture the workplace pensions opportunity, offering customers a single home for their banking and insurance needs and driving growth across intermediary and relationship channels through a strong distribution model.

Delivering a leading customer experience

- Scottish Widows won Pension Firm of the Year at the FDs Excellence Awards for the second consecutive year
- Successfully completed the first stage of transfer of the acquired Zurich UK workplace pensions and savings business, helping to create a market leading UK retirement savings business
- New drawdown functionality launched within Retirement Account, providing a flexible way for customers to manage and control withdrawals in retirement
- Joined Underwrite Me quote comparison site, allowing intermediaries to obtain fully underwritten prices for personal life insurance and critical illness products from multiple providers using just one application process
- Successfully transferred activity and colleagues to Diligenta and Jardine Lloyd Thomson supporting plans to simplify processes and improve experience for customers

Digitising the Group

- Launched pilot of single customer view across insurance and banking products, allowing Retail customers to view their insurance products online; targeting c.3 million users by year end
- Successful home insurance claims pilot, allowing customers to register and progress claims online

Maximising the Group s capabilities

- Strong progress towards the Helping Britain Prosper target of growing open book assets under administration (AUA) by £50 billion by end 2020. Growth of over £9 billion to date; already ahead of the full year target of £8 billion

- Completed four bulk annuity transactions, generating £1.1 billion of new business premiums, including the Group s largest external deal to date with the Littlewoods Pension Scheme, leveraging an existing relationship within Commercial Banking

- Helping Britain prosper by providing long duration loans to finance social housing, infrastructure and commercial real estate projects while backing the growing annuity portfolio, with over £230 million new loans written in 2018

Financial performance

- Total life and pensions sales increased by 50 per cent, driven by increases in new members in existing workplace schemes, the impact of contracted increases in auto enrolment workplace contributions and bulk annuities

- New underwritten household premiums increased by 26 per cent, reflecting progress of the direct proposition. Total underwritten premiums decreased by 8 per cent driven by the highly competitive marketplace

- Life and pensions new business income was up 75 per cent. This was partly offset by a £54 million decrease in general insurance income, which included around £40 million impact from higher weather related home insurance claims and lower benefits from experience and other items. As a result, total income increased 3 per cent to £1,039 million

- Operating costs decreased 4 per cent, with cost savings more than offsetting higher investment costs

- With higher income and lower costs, underlying profit increased by 12 per cent to £480 million

Insurance capital

- Estimated pre interim dividend Solvency II ratio of 153 per cent (31 December 2017 pre final dividend position: 160 per cent). The fall in the ratio primarily reflects the £600 million dividend paid in February 2018 (in respect of 2017 earnings) and the acquisition of Zurich s UK workplace pensions and savings business, offset by positive market movements and earnings over the first half of the year

- Excess capital of £181 million has been generated in 2018 from which a dividend of £150 million was paid to Group in July 2018

12

Table of Contents

Performance summary

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m	Change %	Half-year to 31 Dec 2017 £m	Change %
Net interest income	**60**	72	*(17)*	61	*(2)*
Other income	**979**	939	*4*	907	*8*
Total income	**1,039**	1,011	*3*	968	*7*
Operating costs	**(534)**	(556)	*4*	(484)	*(10)*
Remediation	**(25)**	(26)	*4*	(14)	*(79)*
Total costs	**(559)**	(582)	*4*	(498)	*(12)*
Impairment					
Underlying profit(1)	**480**	429	*12*	470	*2*
Life and pensions sales (PVNBP)(2)	**7,483**	4,984	*50*	4,967	*51*
General insurance underwritten new GWP(3)	**48**	38	*26*	46	*4*
General insurance underwritten total GWP(3)	**342**	370	*(8)*	363	*(6)*
General insurance combined ratio	**103%**	88%	*15pp*	87%	*16pp*

	At 30 June 2018 £bn	At 31 Dec 2017 (reported)(4) £bn	Change %
Insurance Solvency II ratio(5)	**153%**	160%	*(7)pp*
Wealth loans and advances to customers	**0.8**	0.8	
Wealth customer deposits	**13.6**	13.8	*(1)*
Wealth risk-weighted assets	**1.3**	1.3	
Total customer assets under administration	**151.0**	145.4	*4*

Income by product group

	Half-year to 30 June 2018			Half-year to 30 June 2017			Half-year to 31 Dec 2017
	New business £m	Existing business £m	Total £m	New business £m	Existing business £m	Total £m	£m
Workplace, planning & retirement	**165**	**75**	**240**	61	61	122	134
Individual & bulk annuities	**88**	**45**	**133**	75	45	120	93
Protection	**8**	**11**	**19**	10	10	20	13
Longstanding LP&I	**7**	**208**	**215**	7	220	227	225
	268	**339**	**607**	153	336	489	465
Life and pensions experience and			**140**			176	182

other items			
General insurance	**103**	157	141
	850	822	788
Wealth	**189**	189	180
Total income	**1,039**	1,011	968

(1) Prior periods restated to include remediation.

(2) Present value of new business premiums.

(3) Gross written premiums.

(4) No material impact from application of IFRS 9 adjusted assets are unchanged from those reported at 31 December 2017.

(5) Equivalent regulatory view of ratio (including With Profits funds) at 30 June 2017 was 148 per cent (31 December 2017: 154 per cent).

Table of Contents

CENTRAL ITEMS

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017(1) £m	Change %	Half-year to 31 Dec 2017(1) £m	Change %
Total income	**489**	449	***9***	341	***43***
Operating costs	**(19)**	(28)	***32***	(20)	***5***
Remediation	**(66)**	(19)			
Total costs	**(85)**	(47)	***(81)***	(20)	
Impairment	**20**	(9)		14	***43***
Underlying profit(2)	**424**	393	***8***	335	***27***

(1) Prior periods restated to include run-off.

(2) Prior periods restated to include remediation.

Central items includes income and expenditure not attributed to divisions, including the costs of certain central and head office functions and the Group s private equity business, Lloyds Development Capital.

Table of Contents

RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

The significant risks faced by the Group which could impact the success of delivering against the Group s long-term strategic objectives and through which global macro-economic conditions, ongoing political uncertainty, regulatory developments and market liquidity dynamics could manifest, are detailed below. Except where noted, there has been no significant change to the description of these risks or key mitigating actions disclosed in the Group s 2017 Form 20-F, with any quantitative disclosures updated herein.

The Group continues to consider and assess the potential implications of the UK leaving the European Union and manage related developments to assess, and if possible mitigate any impact to its customers, colleagues and products as well as legal, regulatory, tax, financial and capital implications.

Credit risk The risk that parties with whom the Group has contracted fail to meet their financial obligations (both on and off balance sheet). Adverse changes in the economic, geopolitical and market environment could impact profitability due to an increase in impairment losses, write-downs and/or decrease in asset valuations.

Regulatory and legal risk The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which the Group operates may have a significant impact on the Group s operations, business prospects, structure, costs, capital requirements and/or ability to enforce contractual obligations.

Conduct risk Conduct risk can arise from a number of areas including selling products to customers which do not meet their needs; failing to deal with customers complaints effectively; not meeting customers expectations; failing to promote effective competition in the interest of customers; and exhibiting behaviours which could impact on the integrity of the market or undermine wider regulatory standards.

Operational risk The Group faces significant operational risks which may disrupt services to customers, cause reputational damage, and result in financial loss. These include the availability, resilience and security of the Group s core IT systems, unlawful or inappropriate use of customer data, theft of sensitive data, fraud and financial crime threats, and the potential for failings in the Group s customer processes.

People risk Key people risks include the risk that the Group fails to maintain organisational skills, capability, resilience and capacity levels in response to organisational, political and external market change and evolving business needs.

Insurance underwriting risk Key insurance underwriting risks within the Insurance business are longevity, persistency and property insurance. Longevity risk is expected to increase as the Group s presence in the bulk annuity market increases.

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 The risk that the Group has insufficient financial resources to meet its commitments as they fall due.

Governance risk Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from meeting the requirements to ring-fence core UK financial services and activities from January 2019 and further requirements under the Senior Manager and Certification Regime (SMCR).

Market risk The risk that the Group s capital or earnings profile is affected by adverse market rates, in particular interest rates and credit spreads in the banking business, equity and credit spreads in the Insurance business, and credit spreads 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 financial models and rating systems.

Table of Contents

CREDIT RISK PORTFOLIO

Overview

- Asset quality remains strong with portfolios continuing to benefit from the Group s proactive approach to risk management, continued low interest rates and a resilient UK economic environment

- The net impairment charge increased to £456 million in the first half of 2018, driven by expected lower releases and write-backs and the inclusion of MBNA

- The asset quality ratio was 20 basis points (full year 2017: 18 basis points) with the gross asset quality ratio (before write-backs and releases) of 27 basis points remaining in line with full year 2017 (28 basis points)

Low risk culture and prudent risk appetite

- The Group continues to take a prudent approach to credit risk, with robust credit quality and affordability controls at origination and a prudent through the cycle credit risk appetite. The Group s portfolios are well positioned against an uncertain economic outlook and potential market volatility

- The Group continues to grow lending to key segments while maintaining prudent credit criteria

- The Group s effective risk management ensures early identification and management of customers and counterparties who may be showing signs of distress

- Sector concentrations within the lending portfolios are closely monitored and controlled, with mitigating actions taken where appropriate. Sector and product caps limit exposure to certain higher risk and vulnerable sectors and asset classes

Table of Contents

Impairment charge by division

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017(1),(2) £m	Change %	Half-year to 31 Dec 2017(1),(2) £m	Change %
Retail:					
Secured	**20**	34	***41***	(49)	
Unsecured(3)	**386**	173		419	***8***
UK Motor Finance	**49**	45	***(9)***	66	***26***
Other(4)	**6**	8	***25***	15	***60***
	461	260	***(77)***	451	***(2)***
Commercial Banking:					
SME	**14**	1		6	
Other	**1**	(2)		84	***99***
	15	(1)		90	***83***
Insurance and Wealth					
Central items	**(20)**	9		(14)	***43***
Total impairment charge	**456**	268	***(70)***	527	***13***
Asset quality ratio	**0.20%**	0.12%	***8bp***	0.24%	***(4)bp***
Gross asset quality ratio	**0.27%**	0.23%	***4bp***	0.33%	***(6)bp***

(1) Prior period comparatives are on an IAS39 basis.

(2) Includes run-off, previously reported as a separate segment.

(3) Unsecured includes Credit cards, Loans and Overdrafts.

(4) Retail other includes Business Banking, Europe and Retail run-off

Group loans and advances to customers

	At 30 June 2018 £m	1 January 2018 (4) £m
Retail:		
Secured	**289,584**	290,899
Unsecured(1)	**28,361**	28,008
UK Motor Finance	**14,201**	13,738
Other(2),(3)	**10,160**	9,016
	342,306	341,661
Commercial Banking:		
SME	**29,929**	30,510
Other	**68,821**	70,310
	98,750	100,820

Insurance and Wealth	**829**	819
Central items	**30,196**	20,939
Total gross lending	**472,081**	464,239
Expected credit loss allowance on drawn balances	**(3,056)**	(3,223)
Net balance sheet carrying value	**469,025**	461,016

(1) Unsecured includes Credit cards, Loans and Overdrafts.

(2) Retail other includes Business Banking, Europe and Retail run-off.

(3) Includes reclassification of Business Banking loans and advances from SME within Commercial Banking. 1 January 2018 not restated.

(4) Certain balances have been reallocated between segments. These include the incorporation of International Wealth in Commercial Banking and run-off across Retail and Commercial Banking.

Table of Contents

Retail

- The credit quality of the Retail portfolios remains strong and continues to benefit from robust credit risk management, including affordability and indebtedness controls at origination, and a prudent approach to risk appetite. The economic environment remains supportive with historically high levels of employment, positive real wage growth and household indebtedness remaining significantly below pre-crisis levels:

  - New business quality remains strong;
  - The flow of loans entering arrears remains at low levels.

- Loans and advances remained flat during the period at £342 billion at 30 June 2018

- The impairment charge of £461 million for the first half compares to £260 million for the same period in 2017. The increase is largely attributable to the consolidation of MBNA, a lower level of debt sales and less recoveries cash collected as a result of previous sales

Portfolios

- Secured credit quality improved with a fall in cases more than three months in arrears. The average indexed loan to value (LTV) remained stable at 43.5 per cent (31 December 2017: 43.6 per cent) and the proportion of lending with an LTV of greater than 90 per cent remained low at 2.5 per cent (31 December 2017: 2.5 per cent). The average LTV of new business improved to 62.3 per cent from 63.0 per cent at 31 December 2017. The impairment charge of £20 million for the first half compares to £34 million for the same period in 2017, reflecting a reduction in arrears balances

- The Unsecured portfolio consists of Credit cards, Loans and Overdrafts. The impairment charge increased by £213 million to £386 million in the half-year to 30 June 2018 from £173 million, mainly due to the consolidation of MBNA and a lower level of debt sales in the period, and less recoveries cash collected as a result of previous sales

- The UK Motor Finance portfolio continued to grow, with balances increasing £463 million (3.4 per cent) over the period. Stage 2 and Stage 3 balances grew slightly in the period, £92 million and £13 million respectively, reflecting growth and some maturation of the portfolio. The impairment charge in the period was £49 million compared to £45 million at 30 June 2017. The portfolio continues to benefit from a conservative approach to residual values at origination and through the loan lifecycle, with prudent residual value provisions accounting for £76 million of Stage 1 ECL allowance at 30 June 2018

18

Table of Contents

Retail mortgages greater than three months in arrears (excluding repossessions)

	Number of cases		Total mortgage accounts %		Value of loans(1)		Total mortgage balances %	
	June 2018 Cases	Dec 2017 Cases	June 2018 %	Dec 2017 %	June 2018 £m	Dec 2017 £m	June 2018 %	Dec 2017 %
Mainstream	**30,397**	32,383	**1.5**	1.6	**3,339**	3,502	**1.5**	1.6
Buy-to-let	**4,567**	4,710	**1.0**	1.0	**568**	581	**1.1**	1.1
Specialist	**8,010**	8,313	**7.4**	7.3	**1,307**	1,354	**8.9**	8.7
Total	**42,974**	45,406	**1.7**	1.7	**5,214**	5,437	**1.8**	1.9

(1) Value of loans represents total gross book value of mortgages more than three months in arrears.

The stock of repossessions decreased to 621 cases at 30 June 2018 compared to 777 cases at 31 December 2017.

Period end and average LTVs across the Retail mortgage portfolios

	Mainstream %	Buy-to-let %	Specialist %	Total %
At 30 June 2018				
Less than 60%	**56.4**	**57.1**	**60.0**	**56.6**
60% to 70%	**16.3**	**22.4**	**16.9**	**17.5**
70% to 80%	**15.0**	**14.6**	**11.7**	**14.7**
80% to 90%	**9.9**	**4.3**	**6.2**	**8.7**
90% to 100%	**2.0**	**1.1**	**2.1**	**1.9**
Greater than 100%	**0.4**	**0.5**	**3.1**	**0.6**
Total	**100.0**	**100.0**	**100.0**	**100.0**
Average loan to value(1):				
Stock of residential mortgages	**41.7**	**52.2**	**46.2**	**43.5**
New residential lending	**63.2**	**57.6**	**n/a**	**62.3**
Stage 3 mortgages	**44.1**	**64.8**	**57.3**	**48.9**

	Mainstream %	Buy-to-let %	Specialist %	Total %
At 31 December 2017				
Less than 60%	57.1	53.9	57.6	56.4
60% to 70%	16.9	25.0	18.4	18.5
70% to 80%	14.5	15.7	12.8	14.6
80% to 90%	9.0	4.1	6.4	8.0
90% to 100%	2.1	0.7	1.6	1.9
Greater than 100%	0.4	0.6	3.2	0.6
Total	100.0	100.0	100.0	100.0
Average loan to value(1):				
Stock of residential mortgages	41.7	53.0	47.4	43.6

New residential lending	63.7	59.1	n/a	63.0
Stage 3 mortgages (at 1 January 2018)(2)	44.8	64.8	58.4	49.7

(1) Average loan to value is calculated as total gross loans and advances as a percentage of the indexed total collateral of these loans and advances.

(2) Average loan to value percentage for Stage 3 mortgages restated as at 1 January 2018 to align with IFRS 9 classifications (previously average loan to value percentage for impaired mortgages under IAS 39).

Table of Contents

Commercial Banking

- The overall credit quality of the portfolio and new business remains good with the portfolio benefiting from effective risk management, a resilient economic environment and continued low interest rates. Notwithstanding the current competitive market conditions, the Group is maintaining its prudent risk appetite

- Uncertainty persists around the UK and global economic outlook and the outcome of EU exit negotiations. Allied to this are headwinds in a number of sectors including construction, support services and consumer-related sectors, such as retail. Internal and external key performance indicators are monitored closely to help identify early signs of any deterioration and portfolios remains subject to ongoing risk mitigation actions as appropriate

- Whilst the current economic outlook remains unclear, the portfolios are well positioned and the Group s through the cycle risk appetite approach is unchanged. Monitoring indicates no material deterioration in the credit quality of the portfolios. Notwithstanding, impairments are likely to increase from their historic low levels, driven mainly by lower levels of releases and write-backs and an element of credit normalisation

- Net impairment charge of £15 million compared with a net release of £1 million in the first half of 2017, with the increase primarily driven by lower releases and write-backs

- Stage 3 loans as a proportion of total loans and advances to customers has reduced to 2.6 per cent (1 January 2018: 2.7 per cent).

- Stage 2 loans as a proportion of total loans and advances to customers were stable at 7.7 per cent (1 January 2018: 7.7 per cent)

- Total UK Direct Real Estate gross lending across Commercial Banking and Retail (excluding securitisations) was £17.9 billion (31 December 2017: £17.9 billion)

Portfolios

- The SME and Mid Markets portfolios are domestically focused and reflect the underlying performance of the UK economy and our prudent credit risk appetite. Whilst, in the market certain sectors are showing some early signs of stress emerging, the Group s overall credit quality has been stable with levels of impairment remaining low

- The Global Corporates business continues to have a predominance of multi-national investment grade clients who are primarily UK based. The portfolio remains of good quality despite the current economic uncertainty

- The commercial real estate business within the Group s Mid Markets and Global Corporate portfolio is focused on clients operating in the UK commercial property market ranging in size from medium-sized private real estate entities up to publicly listed property companies. Credit quality remains good with minimal impairments/stressed loans. Recognising this is a cyclical sector, appropriate caps are in place to control exposure and business propositions continue to be written in line with a prudent, through the cycle risk appetite with conservative LTVs, strong quality of income and proven management teams

- Through clearly defined sector strategies Financial Institutions serves predominantly investment grade counterparties with whom relationships are either client driven or held to support the Group s funding, liquidity or general hedging requirements

Table of Contents

FUNDING AND LIQUIDITY MANAGEMENT

The Group has maintained its strong funding and liquidity position with a loan to deposit ratio of 106 per cent at 30 June 2018 (107 per cent as at 1 January 2018).

Following the end of the Bank of England s Term Funding Scheme at the start of 2018, term issuance volumes have increased in line with expectations. During the first half of 2018, the Group has issued term funding of £14.6 billion, which represents a significant proportion of its planned issuance for 2018. In addition, the Group has prudently increased its liquidity position during the period of the ring-fencing transfers through additional short term money market funding. As a result, wholesale funding has increased by £21.3 billion to £122.4 billion as at 30 June 2018.

Following the Moody s upgrade in 2017, the Group s continued balance sheet strengthening resulted in further positive ratings news in May 2018 when S&P upgraded Lloyds Bank plc s long-term rating by one notch to A+ . This reflected the Group s enhanced bail-in capital position and improved profitability.

The Group s liquidity surplus continues to exceed the regulatory minimum and internal risk appetite, with a Liquidity Coverage Ratio (LCR) of 129 per cent as at 30 June 2018 calculated on a Group consolidated basis based on the EU Delegated Act.

Table of Contents

Group funding position

	At 30 June 2018 £bn	At 1 Jan 2018 (adjusted)(1) £bn	Change %	At 31 Dec 2017 (reported) £bn	Change %
Funding requirement					
Loans and advances to customers(2)	**442.3**	444.2		455.7	*(3)*
Loans and advances to banks(3)	**6.0**	1.7		4.1	*46*
Debt securities at amortised cost	**4.3**	3.3	*30*	3.6	*19*
Reverse repurchase agreements non LCR eligible		0.7		0.7	
Financial assets at fair value through other comprehensive income non-LCR eligible(4)	**0.9**	1.7	*(47)*		
Available-for-sale financial assets non-LCR eligible(4)				0.9	
Cash and balances at central bank non-LCR eligible(5)	**4.5**	4.8	*(6)*	4.8	*(6)*
Funded assets	**458.0**	456.4		469.8	*(3)*
Other assets(6)	**255.4**	247.2	*3*	234.7	*9*
	713.4	703.6	*1*	704.5	*1*
On balance sheet LCR eligible liquid assets					
Reverse repurchase agreements	**27.3**	16.9	*62*	16.9	*62*
Cash and balances at central banks(5)	**63.5**	53.7	*18*	53.7	*18*
Financial assets at fair value through other comprehensive income	**30.4**	41.2	*(26)*		
Available-for-sale financial assets				41.2	
Trading and fair value through profit and loss	**1.1**	1.7	*(35)*	1.7	*(35)*
Repurchase agreements	**(5.9)**	(5.9)		(5.9)	
	116.4	107.6	*8*	107.6	*8*
Total Group assets	**829.8**	811.2	*2*	812.1	*2*
Less: other liabilities(6)	**(221.4)**	(226.8)	*(2)*	(226.5)	*(2)*
Funding requirement	**608.4**	584.4	*4*	585.6	*4*
Funded by					
Customer deposits(7)	**417.6**	415.5	*1*	415.5	*1*
Wholesale funding(8)	**122.4**	101.1	*21*	101.1	*21*
	540.0	516.6	*5*	516.6	*5*
Term funding scheme	**19.9**	19.9		19.9	
Total equity	**48.5**	47.9	*1*	49.1	*(1)*
Total funding	**608.4**	584.4	*4*	585.6	*4*

(1) Adjusted to reflect the implementation of IFRS 9 and IFRS 15.

(2) Excludes reverse repos of £26.7 billion (31 December 2017: £16.8 billion).

(3) Excludes £0.1 billion (31 December 2017: £1.7 billion) of loans and advances to banks within the Insurance business and £0.6 billion (31 December 2017: £0.8 billion) of reverse repurchase agreements.

(4) Non-LCR eligible liquid assets comprise a diversified pool of highly rated unencumbered collateral (including retained issuance).

(5) Cash and balances at central banks are combined in the Group s balance sheet.

(6) Other assets and other liabilities primarily include balances in the Group s Insurance business and the fair value of derivative assets and liabilities.

(7) Excludes repos of £4.0 billion (31 December 2017: £2.6 billion).

(8) The Group s definition of wholesale funding aligns with that used by other international market participants; including interbank deposits, debt securities in issue and subordinated liabilities.

Table of Contents

Reconciliation of Group funding to the balance sheet

At 30 June 2018	**Included in funding analysis £bn**	**Repos and cash collateral received by Insurance £bn**	**Fair value and other accounting methods £bn**	**Balance sheet £bn**
Deposits from banks	**8.1**	**22.5**	**0.3**	**30.9**
Debt securities in issue	**96.1**		**(5.8)**	**90.3**
Subordinated liabilities	**18.2**		**(0.6)**	**17.6**
Total wholesale funding	**122.4**	**22.5**		
Customer deposits	**417.6**	**4.0**		**421.6**
Total	**540.0**	**26.5**		
At 31 December 2017				
Deposits from banks	5.1	24.1	0.6	29.8
Debt securities in issue	78.1		(5.6)	72.5
Subordinated liabilities	17.9			17.9
Total wholesale funding	101.1	24.1		
Customer deposits	415.5	2.6		418.1
Total	516.6	26.7		

Analysis of 2018 total wholesale funding by residual maturity

	Less than one month £bn	**One to three months £bn**	**Three to six months £bn**	**Six to nine months £bn**	**Nine months to one year £bn**	**One to two years £bn**	**Two to five years £bn**	**More than five years £bn**	**Total at 30 June 2018 £bn**	**Total at 31 Dec 2017 £bn**
Deposit from banks	**6.5**	**1.3**	**0.2**	**0.1**					**8.1**	5.1
Debt securities in issue:										
Certificates of deposit	**1.4**	**3.4**	**2.8**	**1.8**	**2.6**				**12.0**	10.0
Commercial paper	**1.3**	**4.6**	**3.6**	**0.6**	**0.2**				**10.3**	3.2
Medium-term notes	**0.2**	**0.8**	**2.2**	**0.5**	**0.1**	**5.6**	**13.7**	**20.9**	**44.0**	37.4
Covered bonds	**0.1**			**0.8**	**1.1**	**3.3**	**14.2**	**6.2**	**25.7**	24.7
Securitisation	**0.1**		**0.1**	**0.5**		**1.6**	**0.7**	**1.1**	**4.1**	2.8
	3.1	**8.8**	**8.7**	**4.2**	**4.0**	**10.5**	**28.6**	**28.2**	**96.1**	78.1
Subordinated liabilities			**0.6**	**0.2**		**1.7**	**3.2**	**12.5**	**18.2**	17.9
Total wholesale funding(1)	**9.6**	**10.1**	**9.5**	**4.5**	**4.0**	**12.2**	**31.8**	**40.7**	**122.4**	101.1
Of which issued by Lloyds Banking Group plc(2)							**7.2**	**16.4**	**23.6**	15.4

(1) The Group s definition of wholesale funding aligns with that used by other international market participants; including interbank deposits, debt securities and subordinated liabilities.

(2) Consists of medium-term notes and subordinated liabilities.

Table of Contents

Analysis of 2018 term issuance

	Sterling £bn	US Dollar £bn	Euro £bn	Other Currencies £bn	Total £bn
Securitisation	**0.8**	**1.0**			**1.8**
Medium-term notes		**4.0**	**1.3**	**1.9**	**7.2**
Covered bonds	**2.3**		**0.9**		**3.2**
Private placements(1)		**0.5**		**0.2**	**0.7**
Subordinated liabilities		**1.0**	**0.7**		**1.7**
Total issuance	**3.1**	**6.5**	**2.9**	**2.1**	**14.6**
Of which issued by Lloyds Banking Group plc(2)		**3.8**	**2.0**	**2.1**	**7.9**

(1) Private placements include structured bonds and term repurchase agreements (repos).

(2) Consists of medium-term notes and subordinated liabilities.

The Group continues to access wholesale funding markets across a wide range of products, currencies and investors to maintain a stable and diverse source of funds. In 2018, the Group will continue with this approach to funding, including capital and funding from the holding company, Lloyds Banking Group plc, as needed to transition towards final UK Minimum Requirements for Own Funds and Eligible Liabilities (MREL). The amounts outstanding under the Bank of England s Term Funding Scheme and Funding for Lending Scheme (FLS) as at 30 June 2018 are £19.9 billion and £19.1 billion, respectively. The contractual maturities of these schemes are fully factored into the Group s funding plan.

Table of Contents

Liquidity portfolio

At 30 June 2018, the banking business had £129.3 billion of highly liquid, unencumbered, LCR eligible assets (31 December 2017: £120.9 billion). These assets are available to meet cash and collateral outflows and PRA regulatory requirements and provide a substantial buffer in the event of market dislocation. The Insurance business manages a separate liquidity portfolio to mitigate insurance liquidity risk. Total LCR eligible liquid assets represent over five times the Group s money market funding less than one year to maturity (excluding derivative collateral margins and settlement accounts) and exceed total wholesale funding, and thus provide a substantial buffer in the event of market dislocation.

	At 30 June 2018 £bn	At 31 Dec 2017 £bn	Change %	Average 2018 £bn	Average 2017 £bn
Level 1					
Cash and central bank reserves	**63.5**	53.7	*18*	**57.8**	51.0
High quality government/MDB/agency bonds(1)	**64.2**	65.8	*(2)*	**62.9**	72.0
High quality covered bonds	**0.7**	0.7		**0.7**	1.1
Total	**128.4**	120.2	*7*	**121.4**	124.1
Level 2(2)	**0.9**	0.7	*29*	**0.7**	0.6
Total LCR eligible assets	**129.3**	120.9	*7*	**122.1**	124.7

(1) Designated multilateral development bank (MDB).

(2) Includes Level 2A and Level 2B.

The banking business also has a significant amount of non-LCR eligible assets which are eligible for use in a range of central bank or similar facilities. Future use of such facilities will be based on prudent liquidity management and economic considerations, having regard for external market conditions.

Table of Contents

CAPITAL MANAGEMENT

Analysis of capital position

Adjusting for the sale of the Irish mortgage portfolio and the dividend paid by the Insurance business in July 2018 in relation to its 2018 interim earnings, the Group s CET1 capital ratio increased by 1.21 per cent on an adjusted basis before ordinary dividends during the first half of 2018, primarily as a result of:

- Underlying profit (1.11 per cent) and the dividend paid by the Insurance business in July 2018 in relation to 2018 interim earnings (0.08 per cent)

- The sale of the Irish mortgage portfolio (0.25 per cent), which is expected to complete in the second half of the year

- The impact of market and other movements, including movements in risk-weighted assets, generating an increase of 0.05 per cent

- Offset by a reduction of 0.28 per cent relating to PPI charges

The implementation of IFRS 9 on 1 January 2018 resulted in an initial reduction in CET1 capital of 0.30 per cent which, following the application of transitional relief, reduced to 0.01 per cent.

Overall the Group s CET1 ratio has strengthened to 15.1 per cent on an adjusted basis before ordinary dividends and 14.5 per cent on an adjusted basis after ordinary dividends (31 December 2017: 13.9 per cent adjusted, including the share buy back).

Excluding the impact of the sale of the Irish Mortgage portfolio and the Insurance dividend paid in July 2018 the Group s CET1 ratio has strengthened to 14.7 per cent before ordinary dividends and 14.1 per cent after ordinary dividends (31 December 2017: 14.1 per cent excluding the impact of the share buyback and the Insurance dividend paid in February 2018).

The accrual for foreseeable dividends includes the declared interim ordinary dividend of 1.07 pence per share. In addition the share buy back programme announced as part of the 2017 year end results has been accrued for in full, net of buy backs completed up to the period end.

The transitional total capital ratio, after ordinary dividends, increased by 0.4 per cent to 21.6 per cent, largely reflecting the issuance of new dated subordinated debt instruments, foreign exchange movements and the increase in CET1 capital, partially offset by the amortisation of dated tier 2 instruments.

Total capital requirement

In July 2018 the Group s Pillar 2A capital requirement reduced from 5.4 per cent of risk-weighted assets to 4.6 per cent of risk-weighted assets, of which 2.6 per cent must be met by CET1 capital. It will increase to 4.7 per cent, of which 2.7 per cent must be met by CET1 capital, from 1 January 2019 following entry into force of the UK s ring-fencing regime. This firm specific capital requirement reflects a point in time estimate by the PRA, which may change over time, of the minimum amount of capital that is needed in relation to risks not covered by Pillar 1.

The Group s total capital requirement (TCR) as at 30 June 2018, being the aggregate of the Group s Pillar 1 and current Pillar 2A capital requirements, was £26,589 million (31 December 2017: £28,180 million).

Table of Contents

Combined buffer requirement

The Group is required to maintain a number of regulatory capital buffers, referred to collectively as the combined buffer requirement, which must be met with CET1 capital.

Following the increase in the UK countercyclical capital buffer rate in June 2018 from zero to 0.5 per cent (with a further increase in November 2018 to 1.0 per cent) the Group is currently subject to the following capital buffers:

- A capital conservation buffer (CCB) of 1.875 per cent of risk-weighted assets (increasing to 2.5 per cent in 2019)

- A countercyclical capital buffer (CCyB) of 0.4 per cent of risk-weighted assets (increasing to c.0.9 per cent in November 2018)

The Group is not currently classified as a global systemically important institution (G-SII) but has been identified as an other systemically important institution (O-SII) by the PRA. The O-SII buffer is currently set to zero in the UK.

A systemic risk buffer (SRB) will apply to the Group s ring-fenced bank (RFB) sub-group and will be set by the PRA early in 2019. The SRB will be applied at Group level via a PRA buffer requirement equating to the same monetary amount.

Capital resources

An analysis of the Group s capital position as at 30 June 2018 is presented in the following section on both a CRD IV transitional arrangements basis and a CRD IV fully loaded basis. In addition the Group s capital position reflects the application of the transitional arrangements for IFRS 9.

Table of Contents

The table below summarises the consolidated capital position of the Group.

	Transitional		Fully loaded	
Capital resources	**At 30 June 2018 £m**	**At 31 Dec 2017 £m**	**At 30 June 2018 £m**	**At 31 Dec 2017 £m**
Common equity tier 1				
Shareholders equity per balance sheet	**42,940**	43,551	**42,940**	43,551
Adjustment to retained earnings for foreseeable dividends and share buy back	**(1,568)**	(1,475)	**(1,568)**	(1,475)
Deconsolidation adjustments(1)	**1,867**	1,301	**1,867**	1,301
Adjustment for own credit	**(13)**	109	**(13)**	109
Cash flow hedging reserve	**(941)**	(1,405)	**(941)**	(1,405)
Other adjustments	**221**	(177)	**221**	(177)
	42,506	41,904	**42,506**	41,904
Less: deductions from common equity tier 1				
Goodwill and other intangible assets	**(3,372)**	(2,966)	**(3,372)**	(2,966)
Prudent valuation adjustment	**(570)**	(556)	**(570)**	(556)
Excess of expected losses over impairment provisions and value adjustments	**(29)**	(498)	**(29)**	(498)
Removal of defined benefit pension surplus	**(1,213)**	(541)	**(1,213)**	(541)
Securitisation deductions	**(189)**	(191)	**(189)**	(191)
Significant investments(1)	**(4,236)**	(4,250)	**(4,236)**	(4,250)
Deferred tax assets	**(3,103)**	(3,255)	**(3,103)**	(3,255)
Common equity tier 1 capital	**29,794**	29,647	**29,794**	29,647
Additional tier 1				
Other equity instruments	**5,330**	5,330	**5,330**	5,330
Preference shares and preferred securities(2)	**4,415**	4,503		
Transitional limit and other adjustments	**(2,211)**	(1,748)		
	7,534	8,085	**5,330**	5,330
Less: deductions from tier 1				
Significant investments(1)	**(1,355)**	(1,403)		
Total tier 1 capital	**35,973**	36,329	**35,124**	34,977
Tier 2				
Other subordinated liabilities(2)	**13,221**	13,419	**13,221**	13,419
Deconsolidation of instruments issued by insurance entities(1)	**(1,704)**	(1,786)	**(1,704)**	(1,786)
Adjustments for transitional limit and non-eligible instruments	**2,083**	1,617	**(1,154)**	(1,252)
Amortisation and other adjustments	**(2,455)**	(3,524)	**(2,455)**	(3,565)
Eligible provisions		120		120
	11,145	9,846	**7,908**	6,936
less: deductions from tier 2				
Significant investments(1)	**(1,534)**	(1,516)	**(2,889)**	(2,919)
Total capital resources	**45,584**	44,659	**40,143**	38,994
Risk-weighted assets	**210,689**	210,919	**210,689**	210,919
Common equity tier 1 capital ratio(3)	**14.1%**	14.1%	**14.1%**	14.1%
Tier 1 capital ratio	**17.1%**	17.2%	**16.7%**	16.6%
Total capital ratio	**21.6%**	21.2%	**19.1%**	18.5%

(1) For regulatory capital purposes, the Group s Insurance business is deconsolidated and replaced by the amount of the Group s investment in the business. A part of this amount is deducted from capital (shown as significant investments in the table above) and the remaining amount is risk-weighted, forming part of threshold risk-weighted assets.

(2) Preference shares, preferred securities and other subordinated liabilities are categorised as subordinated liabilities in the balance sheet.

(3) The common equity tier 1 ratio is 15.1 per cent (pre dividend) on an adjusted basis upon recognition of the dividend paid by the Insurance business in July 2018 in relation to its 2018 interim earnings and the sale of the Irish mortgage portfolio (31 December 2017: 13.9 per cent on an adjusted basis, including the share buy back).

Table of Contents

Movements in capital resources

The key difference between the transitional capital calculation as at 30 June 2018 and the fully loaded equivalent is primarily related to capital securities that previously qualified as tier 1 or tier 2 capital, but that do not fully qualify under CRD IV, which can be included in additional tier 1 (AT1) or tier 2 capital (as applicable) up to specified limits which reduce by 10 per cent per annum until 2022. The key movements on a transitional basis are set out in the table below.

	Common Equity tier 1 £m	Additional Tier 1 £m	Tier 2 £m	Total capital £m
At 31 December 2017	29,647	6,682	8,330	44,659
Profit attributable to ordinary shareholders(1)	**1,884**			**1,884**
Movement in foreseeable dividends(2)	**342**			**342**
Dividends paid out on ordinary shares during the year	**(1,475)**			**(1,475)**
Dividends received from the Insurance business(1)	**600**			**600**
Share buy back completed	**(565)**			**(565)**
Share buy back accrual	**(435)**			**(435)**
Restatement of retained earnings on adoption of IFRS 9	**(929)**			**(929)**
IFRS 9 transitional adjustment to retained earnings	**481**			**481**
Movement in treasury shares and employee share schemes	**160**			**160**
Pension movements:				
Removal of defined benefit pension surplus	**(672)**			**(672)**
Movement through other comprehensive income	**672**			**672**
Fair value through other comprehensive income reserve	**(243)**			**(243)**
Prudent valuation adjustment	**(14)**			**(14)**
Deferred tax asset	**152**			**152**
Goodwill and other intangible assets	**(406)**			**(406)**
Excess of expected losses over impairment provisions and value adjustments	**469**			**469**
Significant investments	**14**	**48**	**(18)**	**44**
Eligible provisions(3)			**(120)**	**(120)**
Movements in subordinated debt:				
Repurchases, redemptions and other		**(551)**	**(347)**	**(898)**
Issuances			**1,766**	**1,766**
Other movements	**112**			**112**
At 30 June 2018	**29,794**	**6,179**	**9,611**	**45,584**

(1) Under the regulatory framework, profits made by Insurance are removed from CET1 capital. However, when dividends are paid to the Group by Insurance these are recognised through CET1 capital.

(2) Reflects the accrual for foreseeable 2018 ordinary dividends (including the interim dividend) and the reversal of the accrual for the 2017 full year ordinary dividend which has now been paid.

(3) The movement in eligible provisions reflects the adjustment made in respect of the application of the IFRS9 transitional arrangements.

Table of Contents

CET1 capital resources have increased by £147 million in the period, primarily reflecting:

- profit generation during the period
- the receipt of the dividend paid by the Insurance business in February 2018
- a reduction in the deferred tax asset deduction
- a substantial reduction in excess expected losses resulting from the partial absorption of the increase in impairment provisions following the adoption of IFRS 9 on 1 January 2018 (remaining expected losses deducted from capital relate specifically to equity exposures)
- largely offset by the accrual for foreseeable dividends in respect of the first half of 2018, share buy backs completed during the period and the accrual for the remaining buy back under the programme announced as part of the 2017 year end results, the impact on retained earnings following the adoption of IFRS 9 on 1 January 2018 (net of transitional relief), movements through the fair value through other comprehensive income (FVOCI) reserve and an increase in intangible assets which are deducted from capital

AT1 capital resources have reduced by £503 million in the period, primarily reflecting the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments.

Tier 2 capital resources have increased by £1,281 million in the period largely reflecting the issuance of new dated subordinated debt instruments, the transitioning of grandfathered AT1 instruments to tier 2 and foreign exchange movements, partially offset by the amortisation of dated instruments.

Minimum requirement for own funds and eligible liabilities (MREL)

Applying the Bank of England s minimum requirement for own funds and eligible liabilities (MREL) policy to current capital requirements, the Group s indicative MREL requirement, excluding regulatory capital buffers, is as follows:

- From 2020, 2 times Pillar 1 plus Pillar 2A, equivalent to 20.7 per cent of risk-weighted assets
- From 2022, 2 times Pillar 1 plus 2 times Pillar 2A, equivalent to 25.4 per cent of risk-weighted assets

The Bank of England will review the calibration of MREL in 2020 before setting final end-state requirements to be met from 2022. This review will take into consideration any changes to the capital framework, including the finalisation of Basel III.

During the first half of 2018, the Group issued £6.1 billion (sterling equivalent as at 30 June 2018) of senior unsecured securities from Lloyds Banking Group plc which, while not included in total capital, are eligible to meet MREL. Combined with previous issuances made over the last two years the Group remains comfortably positioned to meet MREL requirements from 2020 and, as at 31 June 2018, had a transitional MREL ratio of 29.1 per cent of risk-weighted assets.

An analysis of the Group s current MREL position is provided in the table below.

	Transitional	
MREL	**At 30 Jun 2018 £m**	**At 31 Dec 2017 £m**
Total capital resources (transitional basis)	**45,584**	44,659
Ineligible AT1 and tier 2 instruments(1)	**(1,223)**	(1,350)
Senior unsecured securities issued by holdco	**16,927**	10,815
Total MREL	**61,288**	54,124
Risk-weighted assets	**210,689**	210,919
MREL ratio(2)	**29.1%**	25.7%

(1) Instruments with less than one year to maturity or governed under non-EEA law without a contractual bail-in clause.

(2) The MREL ratio is 29.7 per cent on an adjusted basis upon recognition of the dividend paid by the Insurance business in July 2018 in relation to its 2018 interim earnings and the sale of the Irish mortgage portfolio (31 December 2017: 26.0 per cent on an adjusted basis).

Table of Contents

Risk-weighted assets

	At 30 June 2018 £m	At 31 Dec 2017 £m
Foundation Internal Ratings Based (IRB) Approach	**60,198**	60,207
Retail IRB Approach	**58,868**	61,588
Other IRB Approach	**16,421**	17,191
IRB Approach	**135,487**	138,986
Standardised (STA) Approach	**29,571**	25,503
Credit risk	**165,058**	164,489
Counterparty credit risk	**5,850**	6,055
Contributions to the default fund of a central counterparty	**543**	428
Credit valuation adjustment risk	**911**	1,402
Operational risk	**24,960**	25,326
Market risk	**3,319**	3,051
Underlying risk-weighted assets	**200,641**	200,751
Threshold risk-weighted assets(1)	**10,048**	10,168
Total risk-weighted assets	**210,689**	210,919

Risk-weighted assets movement by key driver

	Credit risk IRB £m	Credit risk STA £m	Credit risk total(2) £m	Counterparty credit risk(3) £m	Market risk £m	Operational risk £m	Total £m
Total risk-weighted assets as at 31 December 2017							210,919
Less total threshold risk-weighted assets(1)							(10,168)
Risk-weighted assets as at 31 December 2017	138,986	25,503	164,489	7,885	3,051	25,326	200,751
Asset size	**(314)**	**681**	**367**	**160**			**527**
Asset quality	**(35)**	**103**	**68**	**(368)**			**(300)**
Model updates	**993**		**993**		**(619)**		**374**
Methodology and policy	**57**	**126**	**183**	**(136)**			**47**
Acquisitions and disposals	**(4,464)**	**3,184**	**(1,280)**				**(1,280)**
Movements in risk levels (market risk only)					**(321)**		**(321)**
Foreign exchange movements	**156**	**(26)**	**130**	**(230)**			**(100)**
Other	**108**		**108**	**(7)**	**1,208**	**(366)**	**943**
Risk-weighted assets as at 30 June 2018	**135,487**	**29,571**	**165,058**	**7,304**	**3,319**	**24,960**	**200,641**
Threshold risk-weighted assets(1)							**10,048**
Total risk-weighted assets as at 30 June 2018							**210,689**

(1) Threshold risk-weighted assets reflect the element of significant investments and deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital. Significant investments primarily arise from investments in the Group s Insurance business.

(2) Credit risk includes securitisation risk-weighted assets.

(3) Counterparty credit risk includes movements in contributions to the default fund of central counterparties and movements in credit valuation adjustment risk.

Table of Contents

The risk-weighted assets movement table provides analysis of the movement in risk-weighted assets in the period by risk type and an insight into the key drivers of the movements. The key driver analysis is compiled on a monthly basis through the identification and categorisation of risk-weighted asset movements and is subject to management judgment.

Credit risk, risk-weighted assets were driven by the following key movements:

- Asset size increase of £0.4 billion due to targeted growth in key customer segments, partly offset by continued active portfolio management
- Model update increase of £1.0 billion principally due to model changes within mortgage portfolios
- Acquisitions and disposals reflecting the sale of a strategic equity holding and the Irish mortgage portfolio, the latter being offset by a related outstanding short term debtor
- Sterling foreign exchange movements, principally with Euro and US Dollar, contributed to a small increase in risk-weighted assets

Counterparty credit risk and CVA risk-weighted assets reduction of £0.6 billion was mainly driven by CVA and foreign exchange movements.

Market risk, risk-weighted assets increase of £0.3 billion was largely due to migrations to Lloyds Bank Corporate Markets plc, partly offset by refinements to internal models and a reduction in risk exposure.

Operational risk, risk-weighted assets reduced following the actualisation of calculation inputs.

Leverage ratio

The Group is currently subject to the following minimum requirements under the UK Leverage Ratio Framework:

- A minimum leverage ratio requirement of 3.25 per cent of the total leverage exposure measure
- A countercyclical leverage buffer (CCLB) of 0.2 per cent of the total leverage exposure measure (increasing to c.0.3 per cent in November 2018

At least 75 per cent of the minimum leverage ratio requirement and the CCLB must be met with CET1 capital. The CCLB represents 35 per cent of the countercyclical capital buffer (CCyB).

Analysis of leverage movements

The Group s fully loaded UK leverage ratio reduced to 5.2 per cent, with the impact of the increase in tier 1 capital more than offset by the £13.1 billion increase in the exposure measure, the latter reflecting an increase in the derivatives exposure measure and underlying increases in balance sheet assets (net of qualifying central bank claims and deconsolidation adjustments) driven by securities financing transactions (SFT) activity and settlement balances, offset in part by the reduction in financial assets at fair value through other comprehensive income.

The derivatives exposure measure, representing derivative financial instruments per the balance sheet net of deconsolidation and derivatives adjustment, increased by £4.9 billion during the period, mainly reflecting a higher volume of longer dated trades through central counterparties which has contributed to the increase in the regulatory potential future exposure.

The SFT exposure measure, representing SFT assets per the balance sheet net of deconsolidation and other SFT adjustments, increased by £7.6 billion during the period, largely reflecting an increase in customer volumes, partially offset by a small reduction in trading volumes.

Off-balance sheet items increased by £1.2 billion during the period, primarily reflecting new or extended corporate facilities and new residential mortgage offers placed, offset in part by a net reduction in securitisation financing facility commitments following drawdowns.

The average UK leverage ratio of 5.3 per cent over the quarter reflected a strengthening tier 1 capital position offset by the increase in underlying balance sheet assets during the quarter, net of qualifying central bank claims.

Table of Contents

Leverage ratio

	Fully loaded	
	At 30 June 2018 £m	**At 31 Dec 2017 £m**
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	**29,794**	29,647
Additional tier 1 capital	**5,330**	5,330
Total tier 1 capital	**35,124**	34,977
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	**26,955**	25,834
Securities financing transactions	**55,659**	49,193
Loans and advances and other assets	**747,165**	737,082
Total assets	**829,779**	812,109
Qualifying central bank claims	**(65,160)**	(53,842)
Deconsolidation adjustments(1)		
Derivative financial instruments	**(1,722)**	(2,043)
Securities financing transactions	**423**	(85)
Loans and advances and other assets	**(139,343)**	(140,387)
Total deconsolidation adjustments	**(140,642)**	(142,515)
Derivatives adjustments		
Adjustments for regulatory netting	**(12,868)**	(13,031)
Adjustments for cash collateral	**(6,715)**	(7,380)
Net written credit protection	**685**	881
Regulatory potential future exposure	**15,193**	12,335
Total derivatives adjustments	**(3,705)**	(7,195)
Securities financing transactions adjustments	**(1,398)**	(2,022)
Off-balance sheet items	**59,581**	58,357
Regulatory deductions and other adjustments	**(8,143)**	(7,658)
Total exposure measure(2)	**670,312**	657,234
Average exposure measure(3)	**662,839**	
UK Leverage ratio(2),(5)	**5.2%**	5.3%
Average UK leverage ratio(3)	**5.3%**	
CRD IV exposure measure(4)	**735,472**	711,076
CRD IV leverage ratio(4)	**4.8%**	4.9%

(1) Deconsolidation adjustments relate to the deconsolidation of certain Group entities that fall outside the scope of the Group s regulatory capital consolidation, being primarily the Group s Insurance business.

(2) Calculated in accordance with the UK Leverage Ratio Framework which requires qualifying central bank claims to be excluded from the leverage exposure measure.

(3) The average UK leverage ratio is based on the average of the month end tier 1 capital position and average exposure measure over the quarter (1 April 2018 to 30 June 2018). The average of 5.3 per cent compares to 5.3 per cent at the start and 5.2 per cent at the end of the quarter.

(4) Calculated in accordance with CRD IV rules which include central bank claims within the leverage exposure measure.

(5) The UK leverage ratio is 5.3 per cent on an adjusted basis upon recognition of the dividend paid by the Insurance business in July 2018 in relation to its 2018 interim earnings and the sale of the Irish mortgage portfolio (31 December 2017: 5.4 per cent adjusted).

Table of Contents

Application of IFRS 9 on a full impact basis for capital and leverage

	IFRS 9 full impact		
	At 30 June 2018	**At 1 Jan 2018**	**At 31 Dec 2017**
Common equity tier 1 (£m)	**29,216**	29,060	29,647
Transitional tier 1 (£m)	**35,395**	35,742	36,329
Transitional total capital (£m)	**45,343**	44,636	44,659
Total risk-weighted assets (£m)	**211,165**	211,200	210,919
Common equity tier 1 ratio (%)	**13.8%**	13.8%	14.1%
Transitional tier 1 ratio (%)	**16.8%**	16.9%	17.2%
Transitional total capital ratio (%)	**21.5%**	21.1%	21.2%
UK leverage ratio exposure measure (£m)	**670,215**	656,886	657,234
UK leverage ratio (%)	**5.2%**	5.2%	5.3%

Further details on the Group s adoption of the transitional arrangements for IFRS 9 can be found in the Group publication entitled IFRS 9 Financial Instruments Transition , published in March 2018 and located on the Group s website at http://www.lloydsbankinggroup.com/investors/financial-performance/.

The Group has opted to apply paragraph 4 of CRR Article 473a (the transitional rules) which allows for additional capital relief in respect of any post 1 January 2018 increase in Stage 1 and Stage 2 IFRS 9 provisions (net of regulatory expected losses) during the transition period. As at 30 June 2018 no additional capital relief has been recognised.

Stress testing

The Group undertakes a wide ranging programme of stress testing providing a comprehensive view of the potential impacts arising from the risks to which the Group is exposed. One of the most important uses of stress testing is to assess the resilience of the operational and strategic plans of the Group to adverse economic conditions and other key vulnerabilities. As part of this programme the Group conducts macroeconomic stress tests of the operating plan.

The Group also participates in the annual concurrent UK-wide stress tests run by the Bank of England. In the 2017 Bank of England stress test the Group exceeded the capital and leverage thresholds set by the PRA and was not required to take any action as a result of the test. The Group is currently participating in the 2018 Bank of England stress test and, having submitted its results at the end of June, is awaiting the Bank of England s publication of the industry-wide results in Q4.

In addition the Group is participating in the 2018 bi-annual EBA stress test and has submitted its results to the regulator. As with the Bank of England stress test, the Group is awaiting the publication of the results of the test later in the year.

Regulatory capital developments

There continue to be a number of developments to regulatory capital rules. These include PRA and EBA policy changes on mortgage risk-weighted asset modelling, EU revisions to the Capital Requirements Directive and Regulation that will lead to the formation of CRD V and CRR 2, and the final Basel III reforms published in December 2017 which introduce changes to the standardised and modelled approaches for certain risk types, including credit and operational risk along with an aggregate output floor that is due to be implemented in full by 2027. The majority of these changes remain subject to finalisation via European and UK legislative processes, with the implementation of some areas, and associated Pillar 2 offsets, also at the discretion of the PRA.

Table of Contents

Half-year Pillar 3 disclosures

The Group will publish a condensed set of half-year Pillar 3 disclosures in August, prepared in accordance with the revised European Banking Authority (EBA) guidelines on Pillar 3 disclosure formats and frequency that were issued in December 2016.

A copy of the half-year Pillar 3 disclosures will be available to view at:

https://www.lloydsbankinggroup.com/investors/financial-performance/other-disclosures/

Table of Contents

STATUTORY INFORMATION

Table of Contents

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED INCOME STATEMENT

	Note	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m	Half-year to 31 Dec 2017 £m
Interest and similar income		**8,032**	7,861	8,145
Interest and similar expense		**(2,025)**	(2,659)	(2,435)
Net interest income		**6,007**	5,202	5,710
Fee and commission income		**1,372**	1,518	1,447
Fee and commission expense		**(674)**	(670)	(712)
Net fee and commission income	3	**698**	848	735
Net trading income		**1,522**	5,843	5,974
Insurance premium income		**4,815**	4,099	3,831
Other operating income		**1,238**	1,283	712
Other income		**8,273**	12,073	11,252
Total income		**14,280**	17,275	16,962
Insurance claims		**(4,709)**	(7,976)	(7,602)
Total income, net of insurance claims		**9,571**	9,299	9,360
Regulatory provisions		**(807)**	(1,240)	(925)
Other operating expenses		**(5,191)**	(4,962)	(5,219)
Total operating expenses	4	**(5,998)**	(6,202)	(6,144)
Trading surplus		**3,573**	3,097	3,216
Impairment	5	**(456)**	(203)	(485)
Profit before tax		**3,117**	2,894	2,731
Tax expense	6	**(850)**	(905)	(823)
Profit for the period		**2,267**	1,989	1,908
Profit attributable to ordinary shareholders		**2,025**	1,739	1,653
Profit attributable to other equity holders(1)		**205**	209	206
Profit attributable to equity holders		**2,230**	1,948	1,859
Profit attributable to non-controlling interests		**37**	41	49
Profit for the period		**2,267**	1,989	1,908
Basic earnings per share	7	**2.9p**	2.5p	2.4p
Diluted earnings per share	7	**2.9p**	2.5p	2.3p

(1) The profit after tax attributable to other equity holders of £205 million (half-year to 30 June 2017: £209 million; half-year to 31 December 2017: £206 million) is offset in reserves by a tax credit attributable to ordinary shareholders of £50 million (half-year to 30 June 2017: £51 million; half-year to 31 December 2017: £51 million).

Table of Contents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m	Half-year to 31 Dec 2017 £m
Profit for the period	**2,267**	1,989	1,908
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements:			
Remeasurements before tax	**908**	(124)	752
Tax	**(206)**	32	(178)
	702	(92)	574
Movements in revaluation reserve in respect of equity shares held at fair value through other comprehensive income:			
Change in fair value	**(97)**		
Tax	**22**		
	(75)		
Gains and losses attributable to own credit risk:			
Gains (losses) before tax	**167**	(44)	(11)
Tax	**(45)**	12	3
	122	(32)	(8)
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	**109**		
Income statement transfers in respect of disposals	**(203)**		
Impairment	**1**		
Tax	**46**		
	(47)		
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value		455	(152)
Income statement transfers in respect of disposals		(315)	(131)
Income statement transfers in respect of impairment		6	
Tax		(48)	111
		98	(172)
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value taken to other comprehensive income	**(223)**	(267)	(96)
Net income statement transfers	**(423)**	(317)	(334)
Tax	**182**	151	132
	(464)	(433)	(298)
Currency translation differences (tax: nil)	**5**	(7)	(25)
Other comprehensive income for the period, net of tax	**243**	(466)	71
Total comprehensive income for the period	**2,510**	1,523	1,979
Total comprehensive income attributable to ordinary shareholders	**2,268**	1,273	1,724
Total comprehensive income attributable to other equity holders	**205**	209	206
Total comprehensive income attributable to equity holders	**2,473**	1,482	1,930
Total comprehensive income attributable to non-controlling interests	**37**	41	49
Total comprehensive income for the period	**2,510**	1,523	1,979

38

Table of Contents

CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2018 £m	At 1 Jan 2018(1) £m	At 31 Dec 2017 £m
Assets				
Cash and balances at central banks		**67,948**	58,521	58,521
Items in the course of collection from banks		**702**	755	755
Financial assets at fair value through profit or loss	8	**172,361**	176,008	162,878
Derivative financial instruments	9	**26,955**	25,474	25,834
Loans and advances to banks		**6,674**	4,246	6,611
Loans and advances to customers	10	**469,025**	461,016	472,498
Debt securities		**4,281**	3,314	3,643
Financial assets at amortised cost		**479,980**	468,576	482,752
Financial assets at fair value through other comprehensive income		**31,300**	42,917	
Available-for-sale financial assets				42,098
Goodwill		**2,310**	2,310	2,310
Value of in-force business		**5,032**	4,839	4,839
Other intangible assets		**3,061**	2,835	2,835
Property, plant and equipment		**12,577**	12,727	12,727
Current tax recoverable			16	16
Deferred tax assets		**2,324**	2,609	2,284
Retirement benefit assets	13	**1,584**	723	723
Other assets		**23,645**	12,872	13,537
Total assets		**829,779**	811,182	812,109

(1) See note 21

Table of Contents

Equity and liabilities	Note	At 30 June 2018 £m	At 1 Jan 2018(1) £m	At 31 Dec 2017 £m
Liabilities				
Deposits from banks		**30,934**	29,804	29,804
Customer deposits		**421,609**	418,124	418,124
Items in course of transmission to banks		**849**	584	584
Financial liabilities at fair value through profit or loss		**45,777**	50,935	50,877
Derivative financial instruments	9	**25,561**	26,124	26,124
Notes in circulation		**1,140**	1,313	1,313
Debt securities in issue	12	**90,293**	72,402	72,450
Liabilities arising from insurance contracts and participating investment contracts		**103,524**	103,413	103,413
Liabilities arising from non-participating investment contracts		**15,179**	15,447	15,447
Other liabilities		**23,622**	20,741	20,730
Retirement benefit obligations	13	**265**	358	358
Current tax liabilities		**204**	274	274
Deferred tax liabilities				
Other provisions	16	**4,642**	5,789	5,546
Subordinated liabilities	14	**17,637**	17,922	17,922
Total liabilities		**781,236**	763,230	762,966
Equity				
Share capital	15	**7,196**	7,197	7,197
Share premium account		**17,705**	17,634	17,634
Other reserves		**13,185**	13,553	13,815
Retained profits		**4,854**	3,976	4,905
Shareholders equity		**42,940**	42,360	43,551
Other equity instruments		**5,355**	5,355	5,355
Total equity excluding non-controlling interests		**48,295**	47,715	48,906
Non-controlling interests		**248**	237	237
Total equity		**48,543**	47,952	49,143
Total equity and liabilities		**829,779**	811,182	812,109

(1) See note 21.

Table of Contents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interest £m	Total £m
Balance at 31 December 2017	**24,831**	**13,815**	**4,905**	**43,551**	**5,355**	**237**	**49,143**
Adjustment for IFRS 9 and IFRS 15 (note 21)		**(262)**	**(929)**	**(1,191)**			**(1,191)**
Balance at 1 January 2018	**24,831**	**13,553**	**3,976**	**42,360**	**5,355**	**237**	**47,952**
Comprehensive income							
Profit for the period			**2,230**	**2,230**		**37**	**2,267**
Other comprehensive income							
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		**(47)**		**(47)**			**(47)**
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		**(464)**		**(464)**			**(464)**
Currency translation differences (tax: £nil)		**5**		**5**			**5**
Total other comprehensive income		**(581)**	**824**	**243**			**243**
Total comprehensive income		**(581)**	**3,054**	**2,473**		**37**	**2,510**
Transactions with owners							
Dividends			**(1,475)**	**(1,475)**		**(26)**	**(1,501)**
Distributions on other equity instruments, net of tax			**(155)**	**(155)**			**(155)**
Issue of ordinary shares (note 15)	**142**			**142**			