Lloyds Banking Group plc
Form 6-K
July 27, 2017

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

27 July 2017

LLOYDS BANKING GROUP plc
(Translation of registrant's name into English)

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25 Gresham Street
London
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United Kingdom

(Address of principal executive offices)

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

Form 20-F..X..   Form 40-F

Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes   No ..X..

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-
____

Index to Exhibits

Item

No. 1
Regulatory News Service Announcement, dated 27 July 2017

re: Half-year Report

Lloyds Banking Group plc

2017 Half-Year Results

27 July 2017

BASIS OF PRESENTATION
This release covers the results of Lloyds Banking Group plc together with its subsidiaries (the Group) for the half-year ended 30 June 2017.
Statutory basis: Statutory information is set out on pages 50 to 85. 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: The statutory results are adjusted for certain items which are listed below, to allow a comparison of the Group's underlying performance.

– losses on redemption of the Enhanced Capital Notes and the volatility in the value of the embedded equity conversion feature;
– market volatility and asset sales, 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 and insurance gross up;
– the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets;
– restructuring costs, comprising severance related costs relating to the Simplification programme, the costs of implementing regulatory reform and ring-fencing, the rationalisation of the non-branch property portfolio and the integration of MBNA; and
– payment protection insurance and other conduct provisions.

Unless otherwise stated, income statement commentaries throughout this document compare the half-year ended 30 June 2017 to the half-year ended 30 June 2016, and the balance sheet analysis compares the Group balance sheet as at 30 June 2017 to the Group balance sheet as at 31 December 2016.
MBNA: MBNA's results and balance sheet have been consolidated with effect from 1 June 2017.
Alternative performance measures: The Group uses a number of alternative performance measures, including underlying profit, in the discussion of its business performance and financial position. Further information on these measures is set out on page 89.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or

management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates (including low or negative rates), exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings 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 the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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RESULTS FOR THE HALF-YEAR

'Following the successful transformation of the Group to become a simple, low risk, UK focused retail and commercial bank, we have delivered another strong set of results with increased underlying and statutory profit and strong capital generation, whilst completing the acquisition of MBNA and returning to full private ownership.

The UK economy remains resilient following strong employment and GDP growth in recent years together with private sector deleveraging and rising house prices. Inflation is however now rising above disposable income given the recent depreciation in sterling and, while this may affect consumption going forward, the economy should benefit from rising exports and earnings from foreign assets.

We have announced that our next strategy update for the period 2018-2020 will accompany the Group's full year results in February 2018, and in preparation for this we have made a number of organisational and senior management changes. The changes are aimed at aligning and strengthening the Group's structure to ensure we meet evolving customer needs and deliver the continuous transformation required of the organisation in the most effective way.

Our differentiated UK focused business model continues to deliver, with our cost leadership and lower risk positioning providing competitive advantage. Our strong financial performance and strategic progress continue to position us well for delivering our purpose of Helping Britain Prosper.'

António Horta-Osório
Group Chief Executive

Strong financial performance with improvements in underlying and statutory profit

Underlying profit of £4.5 billion, up 8 per cent; underlying return on tangible equity of 16.6 per cent

Total income 4 per cent higher at £9.3 billion

Net interest income of £5.9 billion, up 2 per cent with improved margin of 2.82 per cent

Other income 8 per cent higher at £3.3 billion

Operating costs 1 per cent lower at £4.0 billion. Market-leading cost:income ratio improved to 45.8 per cent

Asset quality remains strong with impairment charge of £268 million, asset quality ratio stable at 12 basis points

Loans and advances increased to £453 billion, including the benefit of the acquisition of MBNA

Statutory profit before tax 4 per cent higher at £2.5 billion, despite an additional £1 billion of conduct charges in the second quarter, primarily in respect of PPI

Strong capital generation of c.100 basis points reflecting strong underlying performance with common equity tier 1 (CET1) ratio of 14.0 per cent (13.5 per cent post dividend); leverage ratio of 4.9 per cent

Tangible net assets per share of 52.4 pence (31 Dec 2016: 54.8 pence) after payment of 2016 final dividend of 2.2 pence per share and a 1.4 pence per share reduction from the acquisition of MBNA

2017 guidance for NIM and AQR updated, with all other guidance reaffirmed

Net interest margin for the full year now expected to be close to 2.85 per cent, including MBNA

Asset quality ratio for the full year now expected to be less than 20 basis points, including MBNA

Continue to expect 2017 capital generation at the top end of the 170-200 basis points ongoing guidance range

All other longer term guidance remains unchanged

Increased interim dividend

Interim ordinary dividend of 1.0 pence per share, up 18 per cent, in line with our progressive and sustainable approach to ordinary dividends

CONSOLIDATED INCOME STATEMENT – UNDERLYING BASIS

	Half-year to 30 June 2017 £ million	Half-year to 30 June 2016 £ million	Change %	Half-year to 31 Dec 2016 £ million	Change %
Net interest income	5,925	5,782	2	5,653	5
Other income	3,348	3,093	8	2,972	13
Total income	9,273	8,875	4	8,625	8
Operating lease depreciation	(495)	(428)	(16)	(467)	(6)
Net income	8,778	8,447	4	8,158	8
Operating costs	(4,018)	(4,041)	1	(4,052)	1
Impairment	(268)	(245)	(9)	(400)	33
Underlying profit	4,492	4,161	8	3,706	21
Volatility and other items	(358)	(1,247)		(297)	
Payment protection insurance provision	(1,050)	–		(1,000)	

Other conduct provisions	(540)	(460)		(625)	
Statutory profit before tax	2,544	2,454	4	1,784	43
Taxation	(905)	(597)		(1,127)	
Profit for the period	1,639	1,857	(12)	657	149
Earnings per share	2.0p	2.3p	(13)	0.6p	233
Banking net interest margin	2.82%	2.74%	8bp	2.69%	13bp
Average interest-earning banking assets	£431bn	£437bn	(1)	£435bn	(1)
Cost:income ratio	45.8%	47.8%	(2.0)pp	49.7%	(3.9)pp
Asset quality ratio	0.12%	0.11%	1bp	0.18%	(6)bp
Return on risk-weighted assets	4.20%	3.75%	45bp	3.35%	85bp
Underlying return on tangible equity	16.6%	15.1%	1.5pp	13.2%	3.4pp
Return on tangible equity	8.2%	9.7%	(1.5)pp	3.6%	4.6pp

BALANCE SHEET AND KEY RATIOS

	At 30 June 2017	At 31 Dec 2016	Change %
Loans and advances to customers1	£453bn	£450bn	1
Customer deposits2	£417bn	£413bn	1
Loan to deposit ratio	109%	109%	–
Total assets	£815bn	£818bn	–
Pro forma common equity tier 1 ratio pre 2017 dividend accrual3	14.0%	13.8%	0.2pp
Pro forma common equity tier 1 ratio3	13.5%	13.8%	(0.3)pp
Transitional total capital ratio	20.8%	21.4%	(0.6)pp
Pro forma leverage ratio3	4.9%	5.0%	(0.1)pp
Risk-weighted assets	£218bn	£216bn	1
Tangible net assets per share4	52.4p	54.8p	(2.4)p

1 Excludes reverse repos of £11.4 billion (31 December 2016: £8.3 billion).

2 Excludes repos of £1.0 billion (31 December 2016: £2.5 billion).

3 The common equity tier 1 and leverage ratios at 30 June 2017 and 31 December 2016 are reported on a pro forma basis, separately reflecting dividends paid by the Insurance business in July 2017 (in relation to 2017 interim earnings) and February 2017 (in relation to 2016 full year earnings).

4 Tangible net assets per share at 30 June 2017 reflected the payment of the final dividend of 2.2 pence per share in May 2017 and a 1.4 pence per share reduction from the acquisition of MBNA.

SUMMARY CONSOLIDATED BALANCE SHEET

	At 30 June 2017 £ million	At 31 Dec 2016 £ million
Assets		
Cash and balances at central banks	50,491	47,452
Trading and other financial assets at fair value through profit or loss	161,970	151,174
Derivative financial instruments	30,024	36,138
Loans and receivables		
Loans and advances to banks	8,865	26,902
Loans and advances to customers	464,604	457,958
Debt securities	3,841	3,397
	477,310	488,257
Available-for-sale financial assets	51,803	56,524
Other assets	43,321	38,248
Total assets	814,919	817,793
Liabilities		
Deposits from banks	24,879	16,384
Customer deposits	417,617	415,460
Trading and other financial liabilities at fair value through profit or loss	55,671	54,504
Derivative financial instruments	29,190	34,924
Debt securities in issue	71,557	76,314
Liabilities arising from insurance and investment contracts	116,970	114,502
Subordinated liabilities	18,575	19,831
Other liabilities	32,114	37,059
Total liabilities	766,573	768,978
Shareholders' equity	42,513	43,020
Other equity instruments	5,355	5,355
Non-controlling interests	478	440
Total equity	48,346	48,815
Total equity and liabilities	814,919	817,793

GROUP CHIEF EXECUTIVE'S STATEMENT

We have delivered another strong financial performance in the first half with increased underlying and statutory profit and strong capital generation. We have returned to full private ownership, completed the acquisition of MBNA and have made good strategic progress. As a simple, low risk, UK focused bank we are well placed to continue to help Britain prosper.

Operating environment

The UK economy remains resilient following strong employment and GDP growth in recent years together with private sector deleveraging and rising house prices. Inflation is however now rising above disposable income given the recent depreciation in sterling and, while this may affect consumption going forward, the economy should benefit

from rising exports and earnings from foreign assets.

The regulatory environment continues to evolve and there are a number of areas on which we await further clarity including Basel IV, but given the strength of our balance sheet and the capital generative nature of our business model, we are well placed to meet these requirements.

Financial performance

The Group has delivered another strong financial performance in the first half of the year. Underlying profit was 8 per cent higher at £4.5 billion with underlying return after tax on tangible equity 1.5 percentage points higher at 16.6 per cent. Income was 4 per cent higher reflecting higher net interest income and other income. Operating costs continue to fall as delivery of the Simplification programme drives further efficiency, and the Group's cost:income ratio fell to 45.8 per cent. Asset quality remains strong and the asset quality ratio remained stable at 12 basis points. Statutory profit before tax increased 4 per cent to £2.5 billion. This was after taking additional provisions for PPI and other conduct related issues which was disappointing. The Group is also currently undertaking a review of the HBOS Reading fraud and is in the process of paying compensation to the victims of the fraud for economic losses, ex-gratia payments and awards for distress and inconvenience. The strong underlying performance has nevertheless enabled the Group to generate approximately 100 basis points of CET1 capital in the period, at the top end of our guided range.

Our balance sheet remains strong, with a pre dividend CET1 ratio of 14.0 per cent (13.5 per cent post dividend), a total capital ratio of 20.8 per cent and a leverage ratio of 4.9 per cent. Given the strong capital generation in the first half of the year, the Board has recommended an interim ordinary dividend of 1.0 pence per share, an increase of 18 per cent.

Strategic progress

We have continued to make good progress on our strategic priorities in 2017 as we approach the final months of our plan period.

Creating the best customer experience

As a customer focused business, we are committed to meeting our customers' evolving needs and preferences through our multi-brand and multi-channel approach. We operate the UK's largest branch network and the largest digital bank with nearly 13 million active online users. We have more than 8.5 million mobile banking users and for the third consecutive year, the Lloyds Bank app has been rated the most feature rich mobile banking app of all the UK major banks.

Improvements continue to be made across the business as we transform key customer journeys. In Mortgages, customers can receive an agreement in principle in less than 15 minutes and there has been a 36 per cent increase in customers receiving their mortgage offer in less than 14 days with some offers now in two working days. In account opening and onboarding we have opened 300,000 branch savings accounts in less than 30 minutes with a new streamlined process that has halved appointment times. In Commercial Banking we have delivered a 77 per cent increase in the proportion of SME clients onboarded in less than 30 days, with approximately 50 per cent using digital agreements. In Insurance, a core part of our strategy, we have received a number of industry and consumer awards across our key business propositions.

Becoming simpler and more efficient

Cost management continues to be a strategic priority and we remain focused on maintaining competitive advantage through our cost leadership. The Simplification programme is on track to deliver the target of £1.4 billion of annual run-rate savings by the end of 2017, with £1.2 billion of run-rate savings delivered to date. The savings have been delivered through process redesign and automation, improvements in our sourcing arrangements and through organisational changes. These will remain areas of focus as we move into the next phase of our strategy. The Group's market-leading cost:income ratio improved to 45.8 per cent and we continue to expect to exit 2019 with a cost:income ratio of around 45 per cent.

Delivering sustainable growth

We are making good progress in growing market share in areas where we are underrepresented. In Consumer Finance we have grown our motor finance and credit card portfolios organically and the acquisition of MBNA allows us to significantly increase our participation in the UK prime credit card market within our prudent risk appetite. In addition, we have continued to grow SME lending ahead of the market and are committed to supporting first-time home buyers where we are still the largest lender. Open book mortgage balances at 30 June were broadly stable compared to the end of 2016, including the reacquisition of a portfolio of mortgages from TSB, and we expect them to grow in the second half of the year. In Insurance, we continue to invest in developing the brand and the business, including our financial planning and retirement capabilities and have also completed five bulk annuity deals in 2017.

We remain committed to supporting the people, businesses and communities in the UK through our Helping Britain Prosper Plan. As part of this plan, we have already provided more than £4 billion in funding support to the manufacturing sector, ahead of our original 2014 target. We have also supported more than 63,000 start-ups and helped around 2,500 clients to start exporting this year and we are on track to exceed our 2017 targets in both areas.

We have also announced that our next strategy update for the period 2018-2020 will accompany the Group's full year results in February 2018, and in preparation for this we have made a number of organisational and senior management changes. The changes are aimed at aligning and strengthening the Group's structure to ensure we meet evolving customer needs and deliver the continuous transformation required of the organisation in the most effective way.

The combination of the progress we have made towards our strategic priorities and our strong financial performance has enabled the Group to be returned to full private ownership with the UK taxpayer receiving approximately £900 million more than the £20.3 billion originally invested.

Outlook

Our differentiated UK focused business model continues to deliver with our cost leadership and lower risk positioning providing competitive advantage, and our updated financial targets reflect our confidence in the future prospects of the Group.

For the full year, and after including MBNA, net interest margin is now expected to be close to 2.85 per cent and the asset quality ratio is expected to be less than 20 basis points. We continue to expect capital generation for 2017 at the top end of the ongoing 170-200 basis points range and for the cost:income ratio to be lower than in 2016. All other longer term guidance remains unchanged.

António Horta-Osório
Group Chief Executive

SUMMARY OF GROUP RESULTS

Strong financial performance with improvements in underlying and statutory profit

Underlying profit in the first half of 2017 was £4,492 million, 8 per cent higher than in the first half of 2016 with higher total income and lower operating costs offset by a small increase in the impairment charge.

Statutory profit before tax in the period was 4 per cent higher at £2,544 million and included charges for PPI and other conduct issues, of which a further £1,040 million was taken in the second quarter. Statutory profit after tax was £1,639 million and the return on tangible equity was 8.2 per cent.

The Group's CET1 ratio strengthened to 14.0 per cent on a pro forma basis (31 December 2016: 13.8 per cent pro forma) pre dividends with the Group generating c.100 basis points of CET1 capital in the first half of 2017. Tangible

net assets per share at 30 June were 52.4 pence.

Total income

	Half-year to 30 June 2017 £ million	Half-year to 30 June 2016 £ million	Change %	Half-year to 31 Dec 2016 £ million	Change %
Net interest income	5,925	5,782	2	5,653	5
Other income	3,348	3,093	8	2,972	13
Total income	9,273	8,875	4	8,625	8
Operating lease depreciation1	(495)	(428)	(16)	(467)	(6)
Net income	8,778	8,447	4	8,158	8
Banking net interest margin	2.82%	2.74%	8bp	2.69%	13bp
Average interest-earning banking assets	£430.9bn	£436.9bn	(1)	£434.9bn	(1)

1 Net of gains on disposal of leased assets.

Further detail on net interest income is included on page 23.

Total income at £9,273 million increased by 4 per cent with growth in both net interest and other income.

Net interest income increased to £5,925 million, 2 per cent higher, reflecting an 8 basis point improvement in the net interest margin to 2.82 per cent, partly offset by a 1 per cent reduction in average interest-earning banking assets. The improvement in net interest margin continues to be driven by lower deposit and wholesale funding costs, which have more than offset reduced lending rates, and includes a small uplift from the consolidation of MBNA. Average interest-earning banking assets were 1 per cent lower at £431 billion with continued growth in Consumer Finance offset by some further contraction in the mortgage book and reduced lending to the Global Corporates segment.

Given the acquisition of MBNA, the Group now expects growth in both average interest-earning assets and net interest margin in the second half of the year, and expects the full year net interest margin to be close to 2.85 per cent.

The Group manages the risk to its capital and earnings from adverse movements in interest rates centrally by hedging liabilities which are deemed to be stable or less sensitive to change in market interest rates. As at 30 June 2017, the balance hedged was c.£143 billion (31 December 2016: £111 billion) with an average duration of c.3 years and an earning rate of approximately 1.4 per cent over LIBOR (half-year to 30 June 2016: 1.3 per cent over LIBOR). In the first half of 2017, the benefit from the structural hedge totalled £0.9 billion over LIBOR (half-year to 30 June 2016: £0.8 billion).

Other income was £3,348 million, 8 per cent higher than in the first half of 2016. The improvement reflected a strong performance by Commercial Banking which included income earned from support given to Mid Market and Global Corporate clients with a number of significant refinancing and hedging transactions in the second quarter, further growth in Consumer Finance in relation to the Lex Autolease business, and the gain of £146 million on the sale of the Group's interest in VocaLink.

Operating costs

	Half-year to 30 June 2017 £ million	Half-year to 30 June 2016 £ million	Change %	Half-year to 31 Dec 2016 £ million	Change %

Operating costs	4,018	4,041	1	4,052	1
Cost:income ratio	45.8%	47.8%	(2.0)pp	49.7%	(3.9)pp
Operating jaws	5%				
Simplification savings annual run-rate	1,174	642		947	

Operating costs of £4,018 million were 1 per cent lower reflecting the Group's tight cost control and the benefits of the improvements in efficiency delivered through the Simplification programme. The Group further increased its investment in developing digital capability and improving the branch network to respond to changing customer preferences.

The Group has delivered £1.2 billion of run-rate savings to date and remains on track to deliver £1.4 billion of targeted Simplification annual run-rate savings by the end of 2017.

The cost:income ratio improved to 45.8 per cent with positive operating jaws in the period of 5 per cent. The Group continues to expect the cost:income ratio for 2017 to be lower than 2016 (48.7 per cent).

Impairment

	Half-year to 30 June 2017 £ million	Half-year to 30 June 2016 £ million	Change %	Half-year to 31 Dec 2016 £ million	Change %
Total impairment charge	268	245	(9)	400	33
Asset quality ratio	0.12%	0.11%	1bp	0.18%	(6)bp
Gross asset quality ratio	0.23%	0.26%	(3)bp	0.29%	(6)bp
Impaired loans as a % of closing advances	1.8%	2.0%	(0.2)pp	1.8%	–
Provisions as a % of impaired loans	43.4%	43.5%	(0.1)pp	43.4%	–

Asset quality remains strong and the loan portfolios are well positioned, reflecting the Group's continued prudent through the cycle approach to credit risk appetite.

The impairment charge increased by £23 million to £268 million in the first half. Whilst new impairment charges were lower, mainly in Commercial Banking, this was more than offset by a reduced benefit from provision releases and write-backs. The asset quality ratio was 12 basis points (half-year to 30 June 2016: 11 basis points) with the gross asset quality ratio (before releases and write-backs) falling 3 basis points compared with the same period in 2016 and remaining stable compared with the first quarter in 2017.

The Group now expects the asset quality ratio for the year to be less than 20 basis points including MBNA.

Impaired loans have fallen by £0.2 billion to £8.3 billion (31 December 2016: £8.5 billion) and represent 1.8 per cent of total lending at 30 June 2017. The reduction was mainly due to a large disposal in Commercial Banking during the first quarter and further reductions in Run-off.

Provisions as a percentage of impaired loans were unchanged at 43.4 per cent (31 December 2016: 43.4 per cent).

Statutory profit

	Half-year to 30 June 2017 £ million	Half-year to 30 June 2016 £ million	Change %	Half-year to 31 Dec 2016 £ million	Change %

Underlying profit	4,492	4,161	8	3,706	21
Volatility and other items					
Enhanced Capital Notes	–	(790)		–	
Market volatility and asset sales	136	128		311	
Amortisation of purchased intangibles	(38)	(168)		(172)	
Restructuring costs	(321)	(307)		(315)	
Fair value unwind and other	(135)	(110)		(121)	
	(358)	(1,247)		(297)	
Payment protection insurance provision	(1,050)	–		(1,000)	
Other conduct provisions	(540)	(460)		(625)	
Statutory profit before tax	2,544	2,454	4	1,784	43
Taxation	(905)	(597)		(1,127)	
Profit for the period	1,639	1,857	(12)	657	149

Further information on the reconciliation of underlying to statutory results is included on page 22.

Statutory profit before tax increased 4 per cent to £2,544 million (2016: £2,454 million) driven by the increased underlying profit, partly offset by increased conduct provisions.

The charge of £790 million for Enhanced Capital Notes in the first half of 2016 represented the write-off of the embedded derivative and premium paid on the redemption of remaining notes.

Market volatility and asset sales of £136 million included positive insurance volatility of £165 million. The credit of £128 million in 2016 included the gain on sale of Visa Europe of £484 million offset by negative insurance volatility of £372 million.

Amortisation of purchased intangibles was lower at £38 million (2016: £168 million) as certain intangible assets are now fully amortised. Restructuring costs increased to £321 million and comprised severance costs relating to the Simplification programme, the rationalisation of the non-branch property portfolio, the integration of MBNA and the work on implementing the ring-fencing requirements. The Group anticipates c.£0.2 billion of further implementation costs for the ring-fenced bank between now and the end of 2018, with a total cost of c.£0.5 billion.

The £1,050 million charge for PPI includes an additional £700 million provision taken in the second quarter reflecting current claim levels, which remain above the Group’s previous provision assumption. The additional provision will now cover reactive claims of around 9,000 per week through to the end of August 2019. Other conduct provisions of £540 million include an additional £340 million in the second quarter. The additional provision covers a number of items including packaged bank accounts and arrears handling. Following a review of the Group’s arrears handling activities, the Group has put in place a number of actions to improve further its handling of customers in these areas and the Group is reimbursing mortgage arrears fees. The Group is also currently undertaking a review of the HBOS Reading fraud and is in the process of paying compensation to the victims of the fraud for economic losses, ex-gratia payments and awards for distress and inconvenience. A provision of £100 million was taken in the first quarter and reflects the estimated compensation costs for HBOS Reading.

Taxation
The tax charge was £905 million, representing an effective tax rate of 35.6 per cent. The high effective tax rate largely reflects the restrictions on deductibility of conduct provisions and the banking surcharge.

Return on tangible equity
The return on tangible equity was 8.2 per cent with improved underlying profit offset by increased PPI and other conduct provisions. The Group continues to expect to generate a return on tangible equity of between 13.5 and 15.0

per cent in 2019.

Balance sheet

	At 30 June 2017	At 31 Dec 2016	Change %
Loans and advances to customers1	£453bn	£450bn	1
Customer deposits2	£417bn	£413bn	1
Loan to deposit ratio	109%	109%	–
Wholesale funding	£102bn	£111bn	(8)
Wholesale funding <1 year maturity	£30bn	£35bn	(13)
Of which money-market funding <1 year maturity3	£17bn	£14bn	23
Liquidity coverage ratio – eligible assets	£122bn	£121bn	1

1 Excludes reverse repos of £11.4 billion (31 December 2016: £8.3 billion).

2 Excludes repos of £1.0 billion (31 December 2016: £2.5 billion).

3 Excludes balances relating to margins of £2.9 billion (31 December 2016: £3.2 billion) and settlement accounts of £1.2 billion (31 December 2016: £1.8 billion).

Loans and advances to customers increased to £453 billion compared with £450 billion at 31 December 2016, largely driven by the acquisition of the MBNA credit card portfolio. Lending to Consumer Finance and SME customers continued to grow ahead of the market, increasing by 7 per cent (excluding MBNA) and 1 per cent respectively since 31 December 2016. This was more than offset by reductions in the Global Corporate segment as a result of the Group's continued focus on optimising capital and returns and lower closed book mortgage balances.

Open book mortgage balances at 30 June were broadly stable compared to the end of 2016 and include the reacquisition of £1.7 billion of mortgages from TSB in the second quarter. The open mortgage book is expected to grow in the second half of the year and close the year slightly above the 2016 closing position.

Capital ratios and risk-weighted assets

	At 30 June 2017	At 31 Dec 2016	Change %
Pro forma common equity tier 1 ratio pre 2017 dividend accrual1	14.0%	13.8%	0.2pp
Pro forma common equity tier 1 ratio1	13.5%	13.8%	(0.3)pp
Transitional tier 1 capital ratio	16.6%	17.0%	(0.4)pp
Transitional total capital ratio	20.8%	21.4%	(0.6)pp
Pro forma leverage ratio1	4.9%	5.0%	(0.1)pp
Risk-weighted assets	£218bn	£216bn	1
Shareholders' equity	£43bn	£43bn	(1)
Tangible net assets per share	52.4p	54.8p	(2.4)p

1 The common equity tier 1 and leverage ratios at 30 June 2017 and 31 December 2016 are reported on a pro forma basis, separately reflecting dividends paid by the Insurance business in July 2017 (in relation to 2017 interim earnings) and February 2017 (in relation to 2016 full year earnings).

The Group's CET1 ratio improved to 14.0 per cent on a pro forma basis before accruing for 2017 dividends. The Group continues to be strongly capital generative and generated c.100 basis points of capital in the period. This comprised c.140 basis points of underlying capital generation along with c.40 basis points from a reduction in risk-weighted assets (before MBNA) and other factors, partly offset by c.80 basis points to cover conduct provisions. In addition, the Group utilised the CET1 capital retained at 31 December 2016 to cover the acquisition of MBNA. The Group continues to expect capital generation in 2017 at the upper end of the 170-200 basis points ongoing guidance range.

While there remain a number of potential regulatory capital developments (including the introduction of the systemic risk buffer in 2019), the Board's view of the current level of CET1 capital required to grow the business, meet regulatory requirements and cover uncertainties remains unchanged at around 13 per cent.

The amount of capital we believe is appropriate to hold is likely to vary from time to time depending on circumstances and the Board will continue to give due consideration, subject to the situation at the time, to the distribution of any surplus capital through the use of special dividends or share buy backs.

Risk-weighted assets increased to £218 billion as a result of the acquisition of MBNA and targeted growth in key customer segments, partly offset through active portfolio management, disposals and other movements.

The leverage ratio reduced by 0.1 per cent on a pro forma basis to 4.9 per cent, largely reflecting the impact of the acquisition of MBNA on both tier 1 capital and the leverage exposure measure.

Tangible net assets per share fell to 52.4 pence (31 December 2016: 54.8 pence), largely reflecting the payment of the 2016 final dividend of 2.2 pence per share during May 2017 and the 1.4 pence per share impact of the MBNA acquisition.

Structural reform (ring-fencing) update

The Group is making good progress with the implementation of its ring-fencing programme, including the non ring-fenced bank, Lloyds Bank Corporate Markets plc (LBCM), and remains on track to meet the legal and regulatory requirements by 1 January 2019. LBCM will primarily comprise Commercial Banking Markets Financing (including loan markets, bonds and asset securitisation), Commercial Banking Financial Markets Products (including elements of FX and rates), the business undertaken by Lloyds Bank International Ltd and the Group's branches in the United States, Singapore and Crown Dependencies.

As a simple, UK retail and commercial bank, the impact on the Group is relatively limited and there will be minimal impact for the majority of the Group's retail and commercial customers. Approximately 3 per cent of the Group's loans and advances to customers and approximately 7 per cent of Group's risk-weighted assets will be in the non ring-fenced bank. A conditional banking licence with restrictions has been approved for the non ring-fenced entity and preliminary credit ratings for LBCM have been confirmed by S&P (A-/A-2) and Fitch (A/F1).

In addition to the ring-fenced and non ring-fenced banks, the Group will continue to operate its Insurance business as a separate entity and will have a new Equity sub-group which will broadly comprise the LDC business and strategic investments.

UNDERLYING BASIS – SEGMENTAL ANALYSIS

Half-year to 30 June 2017	Commercial	Consumer	Run-off and Central

	Retail £m	Banking £m	Finance1 £m	Insurance £m	items £m	Group £m
Net interest income	3,337	1,425	1,041	(50)	172	5,925
Other income	477	1,100	755	872	144	3,348
Total income	3,814	2,525	1,796	822	316	9,273
Operating lease depreciation	–	(18)	(449)	–	(28)	(495)
Net income	3,814	2,507	1,347	822	288	8,778
Operating costs	(2,077)	(1,057)	(463)	(414)	(7)	(4,018)
Impairment	(139)	(13)	(125)	–	9	(268)
Underlying profit	1,598	1,437	759	408	290	4,492
Banking net interest margin	2.29%	3.45%	5.58%			2.82%
Average interest-earning banking assets	£297.3bn	£84.9bn	£37.9bn		£10.8bn	£430.9bn
Asset quality ratio	0.09%	0.02%	0.67%			0.12%
Return on risk-weighted assets	5.83%	3.11%	4.36%			4.20%
Loans and advances to customers2	£295.8bn	£95.9bn	£45.4bn		£16.1bn	£453.2bn
Customer deposits3	£269.4bn	£138.8bn	£7.1bn		£1.3bn	£416.6bn

Half-year to 30 June 2016	Retail £m	Commercial Banking £m	Consumer Finance £m	Insurance £m	Run off and Central items £m	Group £m
Net interest income	3,296	1,306	994	(80)	266	5,782
Other income	558	982	658	921	(26)	3,093
Total income	3,854	2,288	1,652	841	240	8,875
Operating lease depreciation	–	(52)	(368)	–	(8)	(428)
Net income	3,854	2,236	1,284	841	232	8,447
Operating costs	(2,144)	(1,035)	(466)	(395)	(1)	(4,041)
Impairment	(162)	35	(128)	–	10	(245)
Underlying profit	1,548	1,236	690	446	241	4,161
Banking net interest margin	2.23%	3.18%	6.27%			2.74%
Average interest-earning banking assets	£305.0bn	£88.1bn	£32.9bn		£10.9bn	£436.9bn
Asset quality ratio	0.11%	(0.06)%	0.79%			0.11%
Return on risk-weighted assets	5.70%	2.42%	4.47%			3.75%
Loans and advances to customers2	£300.5bn	£102.0bn	£33.7bn		£16.8bn	£453.0bn
Customer deposits3	£271.3bn	£141.4bn	£9.1bn		£1.5bn	£423.3bn

1 Includes MBNA with effect from 1 June 2017.

2 Excludes reverse repos of £11.4 billion (30 June 2016: £nil).

3 Excludes repos of £1.0 billion (30 June 2016: £nil).

UNDERLYING BASIS – QUARTERLY INFORMATION

	Quarter ended 30 June 2017 £m	Quarter ended 31 Mar 2017 £m	Quarter ended 31 Dec 2016 £m	Quarter ended 30 Sept 2016 £m	Quarter ended 30 June 2016 £m
Net interest income	2,997	2,928	2,805	2,848	2,876
Other income	1,866	1,482	1,545	1,427	1,616
Total income	4,863	4,410	4,350	4,275	4,492
Operating lease depreciation	(263)	(232)	(226)	(241)	(235)
Net income	4,600	4,178	4,124	4,034	4,257
Operating costs	(2,050)	(1,968)	(2,134)	(1,918)	(2,054)
Impairment	(141)	(127)	(196)	(204)	(96)
Underlying profit	2,409	2,083	1,794	1,912	2,107
Market volatility and asset sales	124	12	46	265	331
Amortisation of purchased intangibles	(15)	(23)	(85)	(87)	(84)
Restructuring costs	(164)	(157)	(232)	(83)	(146)
Fair value unwind and other items	(74)	(61)	(75)	(46)	(63)
Payment protection insurance provision	(700)	(350)	–	(1,000)	–
Other conduct provisions	(340)	(200)	(475)	(150)	(345)
Statutory profit before tax	1,240	1,304	973	811	1,800
Banking net interest margin	2.83%	2.80%	2.68%	2.69%	2.74%
Average interest-earning banking assets	£431.0bn	£430.9bn	£434.0bn	£435.9bn	£435.6bn
Cost:income ratio	44.6%	47.1%	51.7%	47.5%	48.2%
Asset quality ratio	0.13%	0.12%	0.17%	0.18%	0.09%

DIVISIONAL RESULTS

RETAIL

Retail offers a broad range of financial service products, including current accounts, savings and mortgages, to UK personal customers, including Wealth and small business customers. It is also a distributor of insurance, and a range of long-term savings and investment products. Its aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value to customers, as well as providing them with greater choice and flexibility. It will maintain its multi-brand, multi-channel strategy, continue to simplify the business and provide more transparent products, helping to improve service levels and reduce conduct risks.

Progress against strategic initiatives

Creating the best customer experience

Announced a new approach to overdrafts that is simple, clear and puts customers in control.

Largest UK digital bank with nearly 13 million active online users including over 8.5 million mobile users.

For the third year running, Lloyds Bank's mobile banking app has been independently ranked number one in the UK for functionality.

Implemented click to call technology enabling customers to contact the call centre from the Group's Mobile App without the need for additional ID verification for the majority of transactions.

36 per cent increase in customers receiving their mortgage offer in less than 14 days, with some offers completed in two working days.

Around 90 per cent of new branch savings accounts opened in less than 30 minutes using new digital process, with appointment times halved.

Retail complaint volumes (excluding PPI) were down 24 per cent in the year to date versus the same period in 2016.

Becoming simpler and more efficient

Continued investment in new distribution technology; iPads introduced in more than 1,800 branches and used for over 5 million transactions since going live.

Maintained the UK's largest branch network with a 21 per cent market share, despite a small number of branch closures.

Improving accessibility in rural areas by increasing the number of mobile branches to 20, with further increases planned in the second half of the year.

Delivering sustainable growth

Continued the Group's commitment to support first-time buyers, with more than £5 billion lent so far in 2017, on track to meet the target of £10 billion in the year.

On track to exceed the Group's commitment on start-up businesses with over 63,000 supported in 2017 to date.

Financial performance

Underlying profit increased 3 per cent to £1,598 million with improved net interest margin and further cost reductions more than offsetting continued pressure on sources of other income.

Net interest income increased 1 per cent reflecting a 6 basis point improvement in net interest margin partly offset by a reduction in interest-earning banking assets.

Other income was 15 per cent lower than the first half of 2016, driven by changing customer needs.

Operating costs decreased 3 per cent to £2,077 million, driven by further efficiency savings which have more than covered increased investment in the business.

Impairment charge decreased 14 per cent to £139 million, benefiting from higher unsecured debt sales and a benign credit environment. Underlying credit quality remains stable.

Loans and advances to customers fell 1 per cent to £295.8 billion. Open book mortgage balances at 30 June were broadly stable compared to the end of 2016 after reflecting the reacquisition of £1.7 billion of mortgages from TSB in the second quarter.

Customer deposits decreased 1 per cent to £269.4 billion, driven by the continued reduction in tactical balances.

Risk-weighted assets have remained broadly flat at £55.3 billion.

Performance summary

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Change %	Half-year to 31 Dec 2016 £m	Change %
Net interest income	3,337	3,296	1	3,201	4
Other income	477	558	(15)	495	(4)
Total income	3,814	3,854	(1)	3,696	3
Operating lease depreciation	–	–		–	
Net income	3,814	3,854	(1)	3,696	3
Operating costs	(2,077)	(2,144)	3	(2,030)	(2)
Impairment	(139)	(162)	14	(211)	34
Underlying profit	1,598	1,548	3	1,455	10
Banking net interest margin	2.29%	2.23%	6bp	2.16%	13bp
Average interest-earning banking assets	£297.3bn	£305.0bn	(3)	£300.4bn	(1)
Asset quality ratio	0.09%	0.11%	(2)bp	0.14%	(5)bp
Impaired loans as % of closing advances	1.5%	1.4%	0.1pp	1.5%	–
Return on risk-weighted assets	5.83%	5.70%	13bp	5.21%	62bp

	At 30 June 2017 £bn	At 31 Dec 2016 £bn	Change %
Loans and advances excluding closed portfolios	270.6	271.0	–
Closed portfolios	25.2	26.7	(6)
Loans and advances to customers	295.8	297.7	(1)

Relationship balances	254.9	253.8	
Tactical balances	14.5	17.2	(16)
Customer deposits	269.4	271.0	(1)
Risk-weighted assets	55.3	55.2	–

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 divisions – 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, debt capital markets services, as well as access to private equity through Lloyds Development Capital.

Progress against strategic initiatives

Commercial Banking continues to meet its strategic objective of improving returns on risk-weighted assets. In the first half of 2017, Commercial Banking has delivered a return of 3.11 per cent significantly outperforming the commitment of 2.40 per cent for 2017.

Creating the best customer experience

Awarded Business Bank of the Year at the FDs' Excellence Awards for the 13th consecutive year.

Helping Britain prosper globally through its newly launched International Trade Portal which provides clients with access to 110,000 importers, 30,000 suppliers, 25,000 market reports, 20,000 trade shows and live tenders.

Becoming simpler and more efficient

Continue to improve the end-to-end journey for clients by significantly improving the way SMEs open an account with approximately 50 per cent of SME account openings in 2017 using the new digital signature tool.

Increased digital capability; clients can now simply and quickly place, review and renew their online deposits 24 hours a day which has improved client experiences.

Delivering sustainable growth

Participated in over £3.6 billion of financing in the first half of 2017 to support UK government infrastructure projects.

On track to exceed the annual £1 billion Helping Britain Prosper funding commitment for manufacturing businesses in each year since the commitment was made in 2014. The cumulative target of £4 billion over four years has been met in the first half of the year, six months ahead of schedule.

Financial performance

Underlying profit increased 16 per cent to £1,437 million.

Return on risk-weighted assets increased to 3.11 per cent, up 69 basis points, demonstrating the continued progress in delivering sustainable returns.

Income growth of 10 per cent to £2,525 million with strong growth in Mid Markets and Global Corporates.

Net interest income up 9 per cent to £1,425 million, supported by disciplined deposit pricing and expanded asset margins due to reduced funding costs. Net interest margin improved by 27 basis points.

Other income up 12 per cent led by good franchise growth including support given to Mid Market and Global Corporate clients with a number of significant refinancing and hedging transactions. Growth in LDC driven by successful equity exits.

Operating lease depreciation reduced due to accelerated charges in the prior year on certain leasing assets.

Operating costs up 2 per cent due to continued investment in the business including simplifying the end-to-end customer journey. Disciplined management of staff-related costs has supported positive operating jaws of 10 per cent.

Impairment charge of £13 million reflects effective credit risk management and the continued low interest rate environment. Asset quality ratio remains low at 0.02 per cent.

Loans and advances fell 4 per cent to £95.9 billion mainly due to reductions in Global Corporates. Lending growth in SME has remained at above market growth levels.

Deposits increased by 5 per cent to £138.8 billion. Strong momentum in attracting high quality transactional banking deposits across the franchise that continues to support the balance sheet strength of the Group.

Continued active portfolio management with risk-weighted assets decreasing £5.2 billion, driven primarily by the reduction in loans and advances.

Performance summary

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Change %	Half-year to 31 Dec 2016 £m	Change %
Net interest income	1,425	1,306	9	1,429	–
Other income	1,100	982	12	1,005	9

Total income	2,525	2,288	10	2,434	4
Operating lease depreciation	(18)	(52)	65	(53)	66
Net income	2,507	2,236	12	2,381	5
Operating costs	(1,057)	(1,035)	(2)	(1,098)	4
Impairment (charge) release	(13)	35		(51)	75
Underlying profit	1,437	1,236	16	1,232	17
Banking net interest margin	3.45%	3.18%	27bp	3.33%	12bp
Average interest-earning banking assets	£84.9bn	£88.1bn	(4)	£89.0bn	(5)
Asset quality ratio	0.02%	(0.06)%	8bp	0.10%	(8)bp
Impaired loans as % of closing advances	2.0%	2.3%	(0.3)pp	2.2%	(0.2)pp
Return on risk-weighted assets	3.11%	2.42%	69bp	2.46%	65bp

	At 30 June 2017 £bn	At 31 Dec 2016 £bn	Change %
Loans and advances to customers	95.9	100.4	(4)
Customer deposits	138.8	132.6	5
Risk-weighted assets	90.8	96.0	(5)

CONSUMER FINANCE

Consumer Finance comprises the Group's consumer lending products, including motor finance, credit cards (including MBNA), unsecured personal loans and its European consumer business. Its aim is to deliver sustainable growth, within a prudent risk appetite in these markets through its multi-brand, multi-channel distribution model.

Progress against strategic initiatives

The division continues to make significant progress against its strategic objectives, and in June, successfully completed the acquisition of the MBNA credit card business from Bank of America. The acquisition consolidates the Group's position as Britain's largest credit card issuer. Customer assets have grown by £11 billion since the start of the year, primarily driven by £7.9 billion related to MBNA and continued organic growth.

Creating the best customer experience

Consumer Cards customer complaints reduced 25 per cent year-on-year, despite continued portfolio growth, as customer concerns are addressed and fixed.

Black Horse completed the first phase of its new digital platform. This enables dealers to clearly present information to customers and submit applications via a tablet.

Lex Autolease launched a new website for both business and personal customers, improving access from mobile devices.

Loans introduced upfront eligibility checking for existing current account customers, and extended the Halifax offer beyond existing customers.

Becoming simpler and more efficient

Black Horse has simplified the process for new customers through the introduction of welcome videos and the issuance of contract information digitally.

Lex Autolease has re-platformed its IT infrastructure, improving IT resilience and doubling performance speed.

Bank of Scotland Germany has replaced its IT system with a modular digital platform that will result in an IT cost reduction of c.30 per cent over a five year period.

Delivering sustainable growth

Consumer Finance continues to closely monitor the economic environment to maintain performance within its prudent risk appetite.

Continue to tighten lending criteria with increased conservatism in residual risk management.

Lex Autolease has achieved its five year ambition to grow the fleet by 100,000 vehicles, cementing its position as the UK's leading motor vehicle leasing company.

Financial performance

Underlying profit at £759 million was up 10 per cent (6 per cent excluding MBNA), mainly driven by higher income and lower impairments. Return on risk-weighted assets remained strong at 4.36 per cent.

Net interest income at £1,041 million was up 5 per cent from strong asset growth.

Other income was up 15 per cent at £755 million, with continued fleet growth in Lex Autolease. This increase was partly offset by growth in associated operating lease depreciation.

Operating costs fell by 1 per cent to £463 million through continued underlying efficiency savings.

Impairment charge down 2 per cent at £125 million due to debt sales more than offsetting portfolio growth. Underlying asset quality ratio was broadly flat at 1.30 per cent.

UK customer assets were up 30 per cent since December 2016, reflecting the acquisition of MBNA and continued growth in Black Horse, in particular through the partnership with Jaguar Land Rover.

Customer deposits were down 10 per cent since December 2016 to £7.1 billion, in line with the Group's deposit strategy.

Performance summary

	Half-year to 30 June 2017[1] £m	Half-year to 30 June 2016 £m	Change %	Half-year to 31 Dec 2016 £m	Change %
Net interest income	1,041	994	5	947	10
Other income	755	658	15	680	11
Total income	1,796	1,652	9	1,627	10
Operating lease depreciation	(449)	(368)	(22)	(407)	(10)
Net income	1,347	1,284	5	1,220	10
Operating costs	(463)	(466)	1	(473)	2
Impairment	(125)	(128)	2	(154)	19
Underlying profit	759	690	10	593	28
Banking net interest margin	5.58%	6.27%	(69)bp	5.52%	6bp
Average interest-earning banking assets	£37.9bn	£32.9bn	15	£34.9bn	9
Asset quality ratio	0.67%	0.79%	(12)bp	0.88%	(21)bp
Impaired loans as % of closing advances	1.8%	2.3%	(0.5)pp	2.1%	(0.3)pp
Return on risk-weighted assets	4.36%	4.47%	(11)bp	3.73%	63bp

1 Includes MBNA with effect from 1 June 2017 (total income £63 million; operating costs £21 million; impairment £14 million).

	At 30 June 2017 £bn	At 31 Dec 2016 £bn	Change %
Loans and advances to customers	45.4	35.1	29
Operating lease assets	4.6	4.1	12
Total customer assets	50.0	39.2	28
Of which UK	42.7	32.8	30
Customer deposits	7.1	7.9	(10)
Risk-weighted assets	40.0	32.1	25

INSURANCE

The Insurance division is committed to providing a range of trusted, value for money protection, general insurance, pension and investment products to meet the needs of its customers. Scottish Widows, with customer funds under management of £124 billion, together with the general insurance business help around 9 million customers to protect what they value most and to plan financially for the future.

Progress against strategic initiatives

The Group continues to invest in developing the Insurance business and seeks to grow in areas where it has competitive advantage and is underrepresented, for the benefit of both customers and shareholders.

Creating the best customer experience

Awarded ‘Pension Firm of the Year’ (FDs’ Excellence Awards), ‘Pensions Provider of the Year’ (Pensions Age Awards) and ‘Risk Reduction Provider of the Year’ (UK Pensions Awards).

Helped almost 10,000 protection customers at the most difficult and challenging times of their lives. An improved customer claim journey means that the percentage of new protection claims paid is one of the highest in the industry.

Becoming simpler and more efficient

More than 40 per cent of corporate pension schemes are now using the digital service for employers, which has significantly reduced processing times.

Launched a digital service for employees with workplace pensions enabling individuals to view their pension value and contribution history, update personal details and access educational material on pension basics.

Delivering sustainable growth

Collaborated with Commercial Banking to source lower risk, long-maturity assets to match growing annuitant liabilities, providing finance to support two major UK infrastructure projects.

Annualised payments to annuity customers in retirement have reached £1 billion, reflecting robust growth in this business.

Sums assured under Scottish Widows Protect have almost doubled to £4.7 billion since the end of 2016.

Continuing the progress made in 2016, five further bulk annuity transactions were successfully completed in the first half of 2017.

Corporate pension, planning and retirement funds under management increased by 8 per cent to £38 billion reflecting net inflows and positive market movements.

Longstanding life, pensions and investment (LP&I) funds under management remains stable.

Financial performance

Underlying profit decreased by 9 per cent to £408 million as a result of lower bulk annuity transactions and increased investment costs in the first half of 2017. Compared to the second half of 2016, underlying profit grew by 4 per cent.

Life and pensions sales increased by 4 per cent reflecting growth in corporate pensions, planning and retirement and protection. Excluding bulk annuity deals, sales increased by 25 per cent.

General insurance underwritten new business household premiums have increased by 3 per cent, driven by the new flexible online offering launched in 2016. However, total underwritten premiums have decreased by 13 per cent, reflecting the continued competitiveness of the household market and the run off of legacy products.

Costs increased to £414 million reflecting higher investment expenditure with business as usual costs remaining broadly flat.

Capital

Paid an interim dividend of £75 million to the Group in July 2017, bringing total dividends paid since the formation of the Group in 2009, to £7.2 billion.

The estimated post interim dividend Solvency II ratio of 152 per cent (31 December 2016 post dividend position: 147 per cent) represents the shareholder view of Solvency II surplus. The increase in the ratio primarily reflects in year earnings and favourable market volatility, partly offset by capital invested in new business.

Performance summary

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Change %	Half-year to 31 Dec 2016 £m	Change %
Net interest income	(50)	(80)	38	(66)	24
Other income	872	921	(5)	834	5
Total income	822	841	(2)	768	7
Operating costs	(414)	(395)	(5)	(377)	(10)
Underlying profit	408	446	(9)	391	4
Life and pensions sales (PVNBP)1	4,984	4,791	4	4,128	21
New business income	153	222	(31)	159	(4)
General insurance underwritten new GWP2	38	37	3	38	–
General insurance underwritten total GWP2	370	424	(13)	409	(10)
General insurance combined ratio	88%	89%	(1)pp	85%	3pp
Solvency II ratio3	152%	144%	8pp	147%	5pp

1 Present value of new business premiums.

2 Gross written premiums.

3 On a post dividend shareholder basis. The equivalent regulatory view of the ratio (including With Profits funds) is 147 per cent at 30 June 2017 (31 December 2016: 143 per cent).

Income by product group

	Half-year to 30 June 2017			Half-year to 30 June 2016			
	New business income £m	Existing business income £m	Total income £m	New business income £m	Existing business income £m	Total income £m	Half-year to 31 Dec 2016 £m
Corporate pensions	50	48	98	69	52	121	106
Bulk annuities	40	13	53	84	6	90	47
Planning and retirement	46	45	91	58	47	105	99
Protection	10	10	20	8	9	17	19
Longstanding LP&I	7	220	227	3	223	226	223
	153	336	489	222	337	559	494
Life and pensions experience and other items			191			124	99
General insurance			157			168	186
NII and free asset return			(15)			(10)	(11)
Total income			822			841	768

Presentation of 2016 income by product group restated to be aligned with 2017 proposition groupings.

New business income has decreased by £69 million to £153 million, driven by the timing of bulk annuity transactions and lower income from corporate pensions and planning and retirement. Existing business income is broadly flat. Compared to the second half of 2016, new business income is stable.

Experience and other items contributed a net benefit of £191 million (2016: £124 million). This included £170 million from the addition of a new death benefit to certain legacy pension contracts, aligning terms with other similar products. An equivalent benefit of £184 million in the first half of 2016 was partly offset by the impact of reforms on activity within the corporate pensions market.

General insurance income net of claims has decreased by £11 million reflecting the continued competitiveness of the Home market and the run off of legacy products.

RUN-OFF AND CENTRAL ITEMS

RUN-OFF

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Change %	Half-year to 31 Dec 2016 £m	Change %
Net interest income	(48)	(59)	19	(51)	6
Other income	45	78	(42)	42	7
Total income	(3)	19		(9)	67
Operating lease depreciation	(28)	(8)		(7)	
Net income	(31)	11		(16)	(94)
Operating costs	(23)	(38)	39	(39)	41
Impairment release	14	10	40	16	(13)
Underlying loss	(40)	(17)		(39)	(3)

	At 30 June 2017 £bn	At 31 Dec 2016 £bn	Change %
Loans and advances to customers	9.1	9.6	(5)
Total assets	10.7	11.3	(5)
Risk-weighted assets	8.1	8.5	(5)

The underlying loss increased to £40 million largely as a result of additional depreciation charges on certain leasing assets.

Total run-off assets have reduced by a further 5 per cent since 31 December 2016.

CENTRAL ITEMS

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Half-year to 31 Dec 2016 £m
Total income	319	221	109
Costs	16	37	(35)
Impairment charge	(5)	–	–
Underlying profit	330	258	74

Central items includes income and expenditure not attributed to divisions, including the costs of certain central and head office functions.

Total income included the gain on sale of the Group’s interest in VocaLink of £146 million together with gains on sales of liquid assets and other items.

ADDITIONAL INFORMATION

1.
Reconciliation between statutory and underlying basis results

The tables below set out the reconciliation from the statutory results to the underlying basis results, the principles of which are set out on the inside front cover.

		Removal of:				
Half-year to 30 June 2017	Lloyds Banking Group statutory £m	Volatility and other items1,4 £m	Insurance gross up2 £m	PPI £m	Other conduct provisions £m	Underlying basis £m
Net interest income	5,202	115	608	–	–	5,925

Other income, net of insurance claims	4,097	(89)	(660)	–	–	3,348
Total income	9,299	26	(52)	–	–	9,273
Operating lease depreciation		(495)	–	–	–	(495)
Net income	9,299	(469)	(52)	–	–	8,778
Operating expenses3	(6,552)	892	52	1,050	540	(4,018)
Impairment	(203)	(65)	–	–	–	(268)
Profit before tax	2,544	358	–	1,050	540	4,492
Half-year to 30 June 2016						
Net interest income	5,225	134	423	–	–	5,782
Other income, net of insurance claims	3,095	502	(519)	–	15	3,093
Total income	8,320	636	(96)	–	15	8,875
Operating lease depreciation		(428)	–	–	–	(428)
Net income	8,320	208	(96)	–	15	8,447
Operating expenses3	(5,504)	922	96	–	445	(4,041)
Impairment	(362)	117	–	–	–	(245)
Profit before tax	2,454	1,247	–	–	460	4,161

1 Half-year to 30 June 2017 comprises the effects of asset sales (gains of £6 million); volatile items (gains of £145 million); liability management (losses of £15 million); the amortisation of purchased intangibles (£38 million); restructuring costs (£321 million, comprising severance costs relating to the Simplification programme, the rationalisation of the non-branch property portfolio, the work on implementing the ring-fencing requirements and the integration of MBNA); and the fair value unwind and other items (losses of £135 million).

2 The Group's insurance businesses' income statements include income and expenditure which are attributable to the policyholders of the Group's long-term assurance funds. These items have no impact in total upon the profit attributable to equity shareholders and, in order to provide a clearer representation of the underlying trends within the business, these items are shown net within the underlying results.

3 The statutory basis figure is the aggregate of operating costs and operating lease depreciation.

4 Half-year to 30 June 2016 comprises the write-off of the ECN embedded derivative and premium paid on redemption of the remaining notes (losses of £790 million); the effects of asset sales (gains of £335 million); volatile items (losses of £353 million); liability management (gains of £146 million); the amortisation of purchased intangibles (£168 million); restructuring costs (£307 million, principally comprising the severance related costs under phase II of the Simplification programme); and the fair value unwind (losses of £110 million).

2. Banking net interest margin

The net interest margin is calculated by dividing underlying banking net interest income by average interest-earning banking assets.

Non-banking net interest income largely comprises subordinated debt costs incurred by the Insurance business. Non-banking assets largely comprise fee based loans and advances within Commercial Banking and loans sold by Commercial Banking and Retail to Insurance to back annuitant liabilities.

The table below shows the reconciliation between statutory net interest income and underlying banking net interest.

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Half-year to 31 Dec 2016 £m
Group net interest income – statutory basis	5,202	5,225	4,049
Insurance gross up	608	423	1,475
Volatility and other items	115	134	129
Group net interest income – underlying basis	5,925	5,782	5,653
Non-banking net interest expense	96	173	218
Banking net interest income – underlying basis	6,021	5,955	5,871
Average interest-earning banking assets	£430.9bn	£436.9bn	£434.9bn
Banking net interest margin	2.82%	2.74%	2.69%

The table below shows a reconciliation between net loans and advances to customers and average interest-earning banking assets.

	Quarter ended 30 Jun 2017 £bn	Quarter ended 31 Mar 2017 £bn	Quarter ended 31 Dec 2016 £bn	Quarter ended 30 Sept 2016 £bn	Quarter ended 30 Jun 2016 £bn
Net loans and advances to customers	453.2	444.7	449.7	451.7	453.0
Impairment provision and fair value adjustments	3.3	3.6	3.7	3.8	4.1
Non-banking items:					
Fee based loans and advances	(7.4)	(8.5)	(9.4)	(8.7)	(9.1)
Sale of assets to Insurance	(6.8)	(6.6)	(6.7)	(6.2)	(6.1)
Other non-banking	(4.2)	(3.4)	(5.0)	(5.5)	(4.9)
Gross banking loans and advances	438.1	429.8	432.3	435.1	437.0
Averaging	(7.1)	1.1	1.7	0.8	(1.4)
Average interest-earning banking assets (qtr)	431.0	430.9	434.0	435.9	435.6
Average interest-earning banking assets (year to date)	430.9	430.9	435.9	436.6	436.9

3.
Volatility arising in insurance businesses

Volatility included in the Group’s statutory results before tax comprises the following:

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Half-year to 31 Dec 2016 £m
Insurance volatility	74	(328)	176
Policyholder interests volatility	110	(10)	251
Total volatility	184	(338)	427
Insurance hedging arrangements	(19)	(34)	(146)

Total	165	(372)	281

The Group's insurance business has policyholder liabilities that are supported by substantial holdings of investments. IFRS requires that the changes in both the value of the liabilities and investments are reflected within the income statement. The value of the liabilities does not move exactly in line with changes in the value of the investments. As the investments are substantial, movements in their value can have a significant impact on the profitability of the Group. Management believes that it is appropriate to disclose the division's results on the basis of an expected return in addition to results based on the actual return. The impact of the actual return on these investments differing from the expected return is included within insurance volatility.

4.
Number of employees (full-time equivalent)

	At 30 June 2017	At 31 Dec 2016
Retail	29,109	29,926
Commercial Banking	5,567	5,755
Consumer Finance1	5,524	3,425
Insurance	1,870	1,939
Group operations and other	30,824	30,843
	72,894	71,888
Agency staff, interns and scholars	(2,639)	(1,455)
Total number of employees	70,255	70,433

1 Includes MBNA at 30 June 2017.

5.
Tangible net assets per share

The table below sets out a reconciliation of the Group's shareholders' equity to its tangible net assets.

	At 30 June 2017 £m	At 31 Dec 2016 £m
Shareholders' equity	42,513	43,020
Goodwill	(2,299)	(2,016)
Intangible assets	(2,536)	(1,681)
Purchased value of in-force business	(323)	(340)
Other, including deferred tax effects	283	170
Tangible net assets	37,638	39,153
Ordinary shares in issue, excluding Own shares	71,871m	71,413m
Tangible net assets per share	52.4p	54.8p

6.

Return on tangible equity

The Group's return on tangible equity is calculated as follows:

	Half-year to 30 June 2017 £bn	Half-year to 30 June 2016 £bn	Half-year to 31 Dec 2016 £bn
Underlying return on tangible equity			
Average shareholders' equity	43.3	42.6	43.1
Average intangible assets	(4.2)	(4.0)	(3.9)
Average tangible equity	39.1	38.6	39.2
Underlying profit after tax (£m)	3,301	3,032	2,700
Add back amortisation of intangible assets (post tax) (£m)	108	86	89
Less profit attributable to other equity holders (£m)	(158)	(163)	(158)
Less profit attributable to non-controlling interests (£m)	(41)	(63)	(38)
Adjusted underlying profit after tax (£m)	3,210	2,892	2,593
Underlying return on tangible equity	16.6%	15.1%	13.2%
Statutory return on tangible equity			
Group statutory profit after tax (£m)	1,639	1,857	657
Add back amortisation of intangible assets (post tax) (£m)	108	86	89
Add back amortisation of purchased intangible assets (post tax) (£m)	45	148	151
Less profit attributable to other equity holders (£m)	(158)	(163)	(158)
Less profit attributable to non-controlling interests (£m)	(41)	(63)	(38)
Adjusted statutory profit after tax (£m)	1,593	1,865	701
Statutory return on tangible equity	8.2%	9.7%	3.6%

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 2016 Annual Report and Accounts, with any quantitative disclosures updated herein.

The Group has already considered many of the potential implications following the UK's vote to leave the European Union and continues to manage related developments to assess, and if possible mitigate any impact to its customers, colleagues and products – as well as all legal, regulatory, tax, finance and capital implications.

Credit risk – The risk that customers and/or other counterparties whom the Group has either lent money to or entered into a financial contract with, or other counterparties with whom the Group has contracted, fail to meet their financial obligations, resulting in loss to the Group. Adverse changes in the economic and market environment the Group operates in or the credit quality and/or behaviour of the Group's customers and counterparties could reduce the value of the Group's assets and potentially increase the Group's write downs and allowances for impairment losses, adversely impacting profitability.

Conduct risk – Conduct risk can arise from the failure to design products and services to ensure they are aligned to customer needs and to design and execute sales processes to ensure products and services are offered only to those customers who need and will benefit from them. Additionally, the failure to provide ongoing support and service to customers and to recognise and respond to customer complaints, providing appropriate rectification in a timely manner. Conduct risk can result from the failure to ensure that colleagues behave in line with conduct, regulatory and ethical standards. Additionally, market conduct risks exist where actions taken can disrupt the fair and effective operation of a market in which the Group is active.

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.

Operational risk – The Group faces significant operational risks, such as risk of cyber and terrorism, which may result in financial loss, disruption of services to customers, and damage to its reputation. These include the availability, resilience and security of the Group's core IT systems and the potential for failings in the Group's customer processes.

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, or can only secure them at excessive cost.

Regulatory and legal risk – The risks of changing legislation, regulation (including regulatory changes such as the Second Payment Services Directive and Open Banking), policies, voluntary codes of practice and their interpretation in the markets in which the Group operates can have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements and ability to enforce contractual obligations.

Governance risk – Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from the requirement to improve the resolvability of the Group and to ring-fence core UK financial services and activities from January 2019, and from the further development of the Senior Managers and Certification Regime.

People risk – Key people risks include the risk that the Group fails to maintain organisational skills, capability, resilience and capacity levels in response to increasing volumes of organisational, political and external market change.

Insurance risk – Key insurance 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. Longevity is also the key insurance risk in the Group's Defined Benefit Pension Schemes.

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.

?

Impaired loans as a percentage of closing loans and advances remained stable at 1.8 per cent, with impaired loans reducing by £202 million to £8,293 million during the period, mainly due to a large disposal in Commercial Banking during the first quarter and further reductions in Run-off.

?
The impairment charge increased by £23 million to £268 million in the first half. The increase was driven by lower provision releases and write-backs which more than offset a reduction in gross impairment charges mainly in Commercial Banking.

?
The asset quality ratio was 12 basis points (half-year to 30 June 2016: 11 basis points) with the gross asset quality ratio (before releases and write-backs) falling 3 basis points compared with the same period in 2016 and remaining stable compared with the first quarter of 2017.

?
The Group now expects the asset quality ratio for the year to be less than 20 basis points, including MBNA.

Low risk culture and prudent risk appetite

The Group continues to operate a prudent approach to credit risk, with the portfolios benefiting from the focus on credit quality at origination and a prudent through the cycle approach to credit risk appetite. The Group's portfolios are well positioned against current economic concerns and market volatility.

The Group's credit processes and controls ensure effective risk management, including early identification and management of customers and counterparties who may be showing signs of distress.

The Group has delivered lending growth in key segments without relaxing credit criteria.

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:

The average indexed LTV of the Retail UK Secured portfolio at 30 June 2017 was 43.0 per cent (31 December 2016: 44.0 per cent). The percentage of closing loans and advances with an indexed LTV greater than 100 per cent was 0.7 per cent (31 December 2016: 0.7 per cent).

Robust indebtedness and affordability controls continue to ensure new unsecured lending is sustainable for customers.

Total UK Direct Real Estate gross lending across the Group was £19.4 billion at 30 June 2017 (31 December 2016: £19.9 billion) and includes Core Commercial Banking lending of £18.1 billion, £0.5 billion booked in the Islands Commercial business and £0.2 billion within Retail Business Banking (within Retail Division).

Run-off net external assets stood at £10,676 million at 30 June 2017, down from £11,336 million at 31 December 2016. The portfolio represents only 2.0 per cent of the overall Group's loans and advances (31 December 2016: 2.1 per cent).

Impairment charge by division

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Change %	Half-year to 31 Dec 2016 £m
Retail:				
Secured	34	32	(6)	72
Overdrafts	94	120	22	121
Other	11	10	(10)	18
	139	162	14	211
Commercial Banking:				
SME	1	(5)		(2)
Other	12	(30)		53
	13	(35)		51
Consumer Finance:				
Credit Cards	49	59	17	77
Loans	30	42	29	28
UK Motor Finance	45	28	(61)	47
Europe	1	(1)		2
	125	128	2	154
Run-off:				
Ireland retail	4	–		(1)
Corporate real estate and other corporate	(7)	9		(8)
Specialist finance	(7)	(13)	(46)	11
Other	(4)	(6)	(33)	(18)
	(14)	(10)	40	(16)
Central items	5	–		–
Total impairment charge	268	245	(9)	400
Asset quality ratio	0.12%	0.11%	1bp	0.18%
Gross asset quality ratio	0.23%	0.26%	(3)bp	0.29%

Total impairment charge comprises:

	Half-year to 30 June 2017 £m	Half-year to 30 June 2016 £m	Change %	Half-year to 31 Dec 2016 £m
Loans and advances to customers	265	257	(3)	400
Debt securities classified as loans and receivables	(4)	–		–
Available-for-sale financial assets	6	–		–
Other credit risk provisions	1	(12)		–

Total impairment charge	268	245	(9)	400

Group impaired loans and provisions

At 30 June 2017	Loans and advances to customers £m	Impaired loans £m	Impaired loans as % of closing advances %	Impairment provisions1 £m	Impairment provisions as % of impaired loans2 %
Retail:					
Secured	292,602	4,175	1.4	1,514	36.3
Overdrafts	1,964	168	8.6	84	80.8
Other	3,002	69	2.3	36	66.7
	297,568	4,412	1.5	1,634	37.7
Commercial Banking:					
SME	30,387	898	3.0	160	17.8
Other	66,263	1,014	1.5	581	57.3
	96,650	1,912	2.0	741	38.8
Consumer Finance:					
Credit Cards	17,634	413	2.3	263	82.7
Loans	7,967	259	3.3	109	86.5
UK Motor Finance3	12,786	126	1.0	139	110.3
Europe4	7,198	43	0.6	23	53.5
	45,585	841	1.8	534	87.1
Run-off:					
Ireland retail	4,472	138	3.1	127	92.0
Corporate real estate and other corporate	1,151	885	76.9	364	41.1
Specialist finance	2,958	24	0.8	37	154.2
Other	1,092	81	7.4	29	35.8
	9,673	1,128	11.7	557	49.4
Reverse repos and other items5	18,424				
Total gross lending	467,900	8,293	1.8	3,466	43.4
Impairment provisions	(3,466)				
Fair value adjustments6	170				
Total Group	464,604				

1 Impairment provisions include collective unidentified impairment provisions.

2 Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries (£64 million in Retail Overdrafts, £15 million in Retail Other, £95 million in Consumer Finance Credit Cards and £133 million in Consumer Finance Loans).

3 UK Motor Finance comprises the UK motor finance portfolios, principally Black Horse and Lex Autolease.

4 Europe comprises Netherlands mortgages and German Consumer Finance products.

5

Includes £6.8 billion of lower risk loans sold by Commercial Banking and Retail to Insurance to back annuitant liabilities.

6 The Group made adjustments to reflect the HBOS and MBNA loans and advances at fair value on acquisition. At 30 June 2017, the remaining fair value adjustment was £170 million comprising a positive adjustment of £300 million in respect of the MBNA assets and a negative adjustment of £130 million in respect of the HBOS assets. The fair value unwind in respect of impairment losses for the six months ended 30 June 2017 was £42 million (30 June 2016: £27 million). The fair value unwind in respect of loans and advances will reduce to zero over time.

At 31 December 2016	Loans and advances to customers £m	Impaired loans £m	Impaired loans as % of closing advances %	Impairment provisions1 £m	Impairment provisions as % of impaired loans2 %
Retail:					
Secured	294,503	4,104	1.4	1,503	36.6
Overdrafts	1,952	179	9.2	90	82.6
Other	3,038	71	2.3	37	67.3
	299,493	4,354	1.5	1,630	38.2
Commercial Banking:					
SME	29,959	923	3.1	173	18.7
Other	71,217	1,256	1.8	651	51.8
	101,176	2,179	2.2	824	37.8
Consumer Finance:					
Credit Cards	9,843	307	3.1	157	81.8
Loans	7,767	277	3.6	92	81.4
UK Motor Finance	11,555	120	1.0	127	105.8
Europe	6,329	41	0.6	20	48.8
	35,494	745	2.1	396	85.0
Run-off:					
Ireland retail	4,497	138	3.1	133	96.4
Corporate real estate and other corporate	1,190	896	75.3	399	44.5
Specialist finance	3,374	99	2.9	111	112.1
Other	1,198	84	7.0	39	46.4
	10,259	1,217	11.9	682	56.0
Reverse repos and other items3	15,249				
Total gross lending	461,671	8,495	1.8	3,532	43.4
Impairment provisions	(3,532)				
Fair value adjustments	(181)				
Total Group	457,958				

1 Impairment provisions include collective unidentified impairment provisions.

2 Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries (£70 million in Retail Overdrafts, £16 million in Retail Other, £115 million in Consumer

Finance Credit Cards and £164 million in Consumer Finance Loans).

3 Includes £6.7 billion of lower risk loans sold by Commercial Banking and Retail to Insurance to back annuitant liabilities.

Retail

Loans and advances in Retail contracted by 0.6 per cent to £297,568 million (31 December 2016: £299,493 million), driven by the Secured portfolio.

Asset quality remains strong across all portfolios. New business quality is stable with fewer loans entering arrears, and remains within credit risk appetite.

Impaired loans as a percentage of closing advances remained stable at 1.5 per cent.

Impairment provisions as a percentage of impaired loans was broadly stable at 37.7 per cent (31 December 2016: 38.2 per cent).

The impairment charge decreased to £139 million (half-year to 30 June 2016: £162 million), mostly due to debt sale write-backs in the Overdrafts portfolio.

Secured

Loans and advances reduced by 0.6 per cent on the Secured book to £292,602 million (31 December 2016: £294,503 million), with reductions in both the Mainstream and Buy-to-let portfolios. The closed Specialist portfolio has continued to run-off, reducing by 5.3 per cent to £16,662 million (31 December 2016: £17,593 million).

The value of owner-occupier interest only loans reduced in the first half of 2017 by 4.3 per cent to £69,505 million (31 December 2016: £72,651 million).

The value of mortgages greater than three months in arrears (excluding repossessions) reduced by 2.2 per cent to £5,900 million at 30 June 2017 (31 December 2016: £6,033 million). New business quality remained stable and flows into arrears improved.

Impaired loans as a percentage of closing advances remained stable at 1.4 per cent.

Impairment provisions as a percentage of impaired loans remained stable at 36.3 per cent (31 December 2016: 36.6 per cent), reflecting a continued prudent approach to provisioning.

The impairment charge was £34 million (half-year to 30 June 2016: £32 million).

The average indexed LTV of the portfolio improved to 43.0 per cent (31 December 2016: 44.0 per cent). The percentage of loans and advances with an indexed LTV in excess of 100 per cent was unchanged at 0.7 per cent.

The average LTV for new mortgages written in the first half of 2017 was stable at 64.0 per cent (31 December 2016: 64.4 per cent).

Overdrafts

Loans and advances increased by 0.6 per cent in the first half of 2017 to £1,964 million (31 December 2016: £1,952 million).

Impaired loans as a percentage of closing advances were 8.6 per cent (31 December 2016: 9.2 per cent).

Impairment provisions as a percentage of impaired loans decreased to 80.8 per cent (31 December 2016: 82.6 per cent).

The impairment charge decreased by 21.7 per cent to £94 million (half-year to 30 June 2016: £120 million), largely due to increased debt sale write-backs and improved underlying performance.

Retail secured and unsecured loans and advances to customers

	At 30 June 2017 £m	At 31 Dec 2016 £m
Mainstream	221,832	222,450
Buy-to-let	54,108	54,460
Specialist1	16,662	17,593
Total secured	292,602	294,503
Overdrafts	1,964	1,952
Wealth	1,993	2,034
Retail Business Banking	1,009	1,004
	4,966	4,990
Total	297,568	299,493

1 Specialist lending has been closed to new business since 2009.

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

Number of cases		Total mortgage accounts %		Value of loans1		Total mortgage balances %	
June	Dec	June	Dec	June	Dec	June	Dec

	2017 Cases	2016 Cases	2017 %	2016 %	2017 £m	2016 £m	2017 %	2016 %
Mainstream	34,919	35,254	1.7	1.7	3,809	3,865	1.7	1.7
Buy-to-let	5,106	5,324	1.1	1.1	633	660	1.2	1.2
Specialist	8,869	9,078	7.4	7.2	1,458	1,508	8.8	8.6
Total	48,894	49,656	1.8	1.8	5,900	6,033	2.0	2.0

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

The stock of repossessions decreased to 595 cases at 30 June 2017 compared to 678 cases at 31 December 2016.

Period end and average LTVs across the Retail mortgage portfolios

	Mainstream %	Buy-to-let %	Specialist %	Total %	Unimpaired %	Impaired %
At 30 June 2017						
Less than 60%	58.8	56.2	57.7	58.3	58.5	42.4
60% to 70%	17.0	24.0	17.4	18.3	18.3	17.8
70% to 80%	13.6	13.1	12.3	13.4	13.4	14.1
80% to 90%	8.1	4.5	6.9	7.4	7.4	10.4
90% to 100%	2.0	1.6	2.5	1.9	1.9	6.0
Greater than 100%	0.5	0.6	3.2	0.7	0.5	9.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Outstanding loan value (£m)	221,832	54,108	16,662	292,602	288,427	4,175
Average loan to value:1						
Stock of residential mortgages	40.9	52.4	47.5	43.0		
New residential lending	64.7	60.6	n/a	64.0		
Impaired mortgages	50.7	69.2	61.4	54.9		

	Mainstream %	Buy-to-let %	Specialist %	Total %	Unimpaired %	Impaired %
At 31 December 2016						
Less than 60%	56.8	52.0	53.8	55.8	56.0	38.3
60% to 70%	17.8	25.4	17.8	19.2	19.3	18.4
70% to 80%	14.0	14.4	13.6	14.0	14.0	15.3
80% to 90%	8.4	6.1	8.6	8.0	7.9	11.9
90% to 100%	2.4	1.5				