Lloyds Banking Group plc
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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

01 August 2018

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

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25 Gresham Street
London
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(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 01 August 2018
re: 2018 Half-Year Results

2018 Half-Year Results
News Release

Lloyds Banking Group plc

1 August 2018

BASIS OF PRESENTATION

This release covers the results of Lloyds Banking Group plc together with its subsidiaries (the Group) for the six months 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 out on pages 48 to 93. 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:

-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.

Segment information: the segment results and balance sheet information have been restated to reflect incorporation of the Run-off segment into Commercial Banking, Retail and Central items. The underlying profit and statutory results at Group level are unchanged as a result of these restatements.

Remediation: Previously referred to as other conduct, remediation which excludes PPI is now included in underlying profit and the Group's cost:income ratio. The Group's and segmental results for the six months ended 30 June 2017 and 31 December 2017 have been restated to allow comparison.

MBNA: MBNA's results and balance sheet have been consolidated with effect from 1 June 2017.

Unless otherwise stated, income statement commentaries throughout this document compare the six months ended 30 June 2018 to the six months 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.

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 97.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results of the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the 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 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, inflation, 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, 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 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 together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; 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 and risks 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 the 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 the 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.

CONTENT

	Page
Key highlights	1
Consolidated income statement	2
Balance sheet and capital	2

Quarterly information	3
Summary consolidated balance sheet	4
Group Chief Executive's statement	5
Summary of Group results	7
Underlying basis – segmental analysis	13
Divisional results	
Retail	15
Commercial Banking	17
Insurance and Wealth	19
Central items	21
Other financial information	
Reconciliation between statutory and underlying basis results	22
Banking net interest margin and average-interest-earning assets	23
Volatility arising in insurance businesses	23
Tangible net assets per share	24
Return on tangible equity	24
Risk management	
Principal risks and uncertainties	25
Credit risk portfolio	26
Funding and liquidity management	34
Capital management	39
Statutory information	
Primary statements	48
Consolidated income statement	49
Consolidated statement of comprehensive income	50
Consolidated balance sheet	51
Consolidated statement of changes in equity	53
Consolidated cash flow statement	56
Notes to the consolidated financial statements	57
Summary of alternative performance measures	97
Contacts	98

RESULTS FOR THE HALF-YEAR

We have delivered another strong financial performance with increased statutory profits, higher returns, and a strong capital build.

There has been significant business progress including the successful delivery of Open Banking, the launch of Lloyds Bank Corporate Markets and the planned integration of MBNA and Zurich's UK workplace pensions and savings business.

In February we announced an ambitious strategy to transform the Group for continued success in a digital world. We have made a strong start in implementing the strategic initiatives which will further digitise the Group, enhance customer propositions, maximise our capabilities as an integrated financial services provider and transform the way we work.

Our differentiated UK business model continues to deliver with our multi brand, multi channel approach, cost leadership, low risk positioning, investment capacity and execution capabilities positioning us well for sustainable success and continuing to deliver our purpose of Helping Britain Prosper.

António Horta-Osório
Group Chief Executive

Significant business progress with strong start to the Group's latest strategic plan

Successful delivery including Open Banking, the launch of Lloyds Bank Corporate Markets and the planned integration of MBNA and Zurich's UK workplace pensions and savings business

Strong start to GSR 3 with increased strategic investment, together with a reduction in the underlying cost base

Continued growth in targeted segments, including SME, consumer finance and financial planning and retirement

Delivering a strong and sustainable financial performance

Statutory profit after tax of £2.3 billion, up 38 per cent, and return on tangible equity of 12.1 per cent

Earnings per share increased 45 per cent to 2.9 pence per share reflecting the improved profitability

Underlying profit increased 7 per cent to £4.2 billion reflecting increased income and lower total costs

Net income of £9.0 billion, 2 per cent higher reflecting an improved margin of 2.93 per cent, higher average interest earning assets at £436 billion and other income of £3.1 billion following a good second quarter

Operating costs flat, despite increased investment and inclusion of the MBNA cost base; cost:income ratio further improved to 47.7 per cent (including remediation) and 44.9 per cent (excluding remediation)

Credit quality remains strong with no deterioration in credit risk indicators; gross asset quality ratio stable at 27 basis points, with increase in net asset quality ratio to 20 basis points reflecting expected lower releases and write-backs

Strong capital build of 121 basis points, including 25 basis points from the sale of the Irish mortgage portfolio, with pro forma CET1 ratio, pre dividend, of 15.1 per cent

Group's Pillar 2A CET1 requirement reduced from 3.0 per cent to 2.7 per cent

Increased interim ordinary dividend of 1.07 pence per share, in line with the Board's progressive and sustainable policy

Tangible net assets per share increased to 52.1 pence per share

Improved guidance for 2018

Capital increase now expected to be c.200 basis points, pre dividend

Net interest margin for the full year now expected to be in line with the first half of 2018

Asset quality ratio now expected to be less than 25 basis points

CONSOLIDATED INCOME STATEMENT – UNDERLYING BASIS

	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	6,344	5,925	7	6,395	(1)
Other income	3,124	3,348	(7)	2,857	9
Total income	9,468	9,273	2	9,252	2
Operating lease depreciation	(497)	(495)	–	(558)	11
Net income	8,971	8,778	2	8,694	3
Operating costs	(4,024)	(4,018)	–	(4,166)	3
Remediation	(257)	(540)	52	(325)	21
Total costs	(4,281)	(4,558)	6	(4,491)	5
Impairment	(456)	(268)	(70)	(527)	13
Underlying profit	4,234	3,952	7	3,676	15
Restructuring	(377)	(321)	(17)	(300)	(26)
Volatility and other items	(190)	(37)		(45)	
Payment protection insurance provision	(550)	(1,050)	48	(600)	8
Statutory profit before tax	3,117	2,544	23	2,731	14
Tax expense	(850)	(905)	6	(823)	(3)
Statutory profit after tax	2,267	1,639	38	1,908	19
Earnings per share	2.9p	2.0p	45	2.4p	21
Banking net interest margin	2.93%	2.82%	11bp	2.90%	3bp
Average interest-earning banking assets	£436bn	£431bn	1	£439bn	(1)
Cost:income ratio including remediation	47.7%	51.9%	(4.2)pp	51.7%	(4.0)pp
Asset quality ratio	0.20%	0.12%	8bp	0.24%	(4)bp
Underlying return on tangible equity	16.3%	14.5%	1.8pp	13.6%	2.7pp
Return on tangible equity	12.1%	8.2%	3.9pp	9.7%	2.4pp

BALANCE SHEET AND CAPITAL

	At 30 June 2018	At 1 Jan 2018 (adjusted)1	Change %	At 31 Dec 2017 (reported)	Change %

Loans and advances to customers2	£442bn	£444bn	–	£456bn	(3)
Customer deposits3	£418bn	£416bn	–	£416bn	–
Loan to deposit ratio	106%	107%	(1.1)pp	110%	(4.1)pp
Pro forma CET1 ratio pre 2018 dividend accrual4	15.1%	13.9%	1.2pp	13.9%	1.2pp
Pro forma CET1 ratio4	14.5%	13.9%	0.6pp	13.9%	0.6pp
Pro forma transitional MREL ratio4	29.7%	26.0%	3.7pp	26.0%	3.7pp
Pro forma UK leverage ratio4	5.3%	5.4%	(0.1)pp	5.4%	(0.1)pp
Risk-weighted assets	£211bn	£211bn	–	£211bn	–
Pro forma risk-weighted assets4	£207bn	£211bn	(2)	£211bn	(2)
Tangible net assets per share	52.1p	51.7p	0.4p	53.3p	(1.2)p

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

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

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

4 The CET1, leverage and transitional MREL ratios at 30 June 2018 and 31 December 2017 are reported on a pro forma basis, reflecting dividends declared by Insurance but paid in the subsequent reporting period. In addition the pro forma ratios and pro forma risk-weighted assets at 30 June 2018 reflect the sale of the Irish mortgage portfolio. The CET1 ratio at 31 December 2017 is reported post share buy back.

QUARTERLY INFORMATION

	Quarter ended 30 June 2018 £m	Quarter ended 31 Mar 2018 £m	Quarter ended 31 Dec 2017 £m	Quarter ended 30 Sept 2017 £m	Quarter ended 30 June 2017 £m	Quarter ended 31 March 2017 £m
Net interest income	3,173	3,171	3,203	3,192	2,997	2,928
Vocalink gain on sale	–	–	–	–	146	–
Other income	1,713	1,411	1,429	1,428	1,720	1,482
Total income	4,886	4,582	4,632	4,620	4,863	4,410
Operating lease depreciation	(245)	(252)	(284)	(274)	(263)	(232)
Net income	4,641	4,330	4,348	4,346	4,600	4,178
Operating costs	(2,016)	(2,008)	(2,165)	(2,001)	(2,050)	(1,968)
Remediation	(197)	(60)	(325)	–	(340)	(200)
Total costs	(2,213)	(2,068)	(2,490)	(2,001)	(2,390)	(2,168)
Impairment	(198)	(258)	(257)	(270)	(141)	(127)
Underlying profit	2,230	2,004	1,601	2,075	2,069	1,883
Restructuring	(239)	(138)	(152)	(148)	(164)	(157)
Volatility and other items	(16)	(174)	(69)	24	35	(72)
Payment protection insurance provision	(460)	(90)	(600)	–	(700)	(350)
Statutory profit before tax	1,515	1,602	780	1,951	1,240	1,304
Tax expense	(395)	(455)	(342)	(481)	(491)	(414)
Statutory profit after tax	1,120	1,147	438	1,470	749	890

Cost:income ratio including remediation	47.7%	47.8%	57.3%	46.0%	52.0%	51.9%
Cost:income ratio excluding remediation	43.4%	46.4%	49.8%	46.0%	44.6%	47.1%
Asset quality ratio	0.18%	0.23%	0.23%	0.24%	0.13%	0.12%

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.

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GROUP CHIEF EXECUTIVE'S STATEMENT

We have delivered a strong and sustainable financial performance in the first half of 2018 with increased statutory profit, higher returns and a strong capital build. We have made significant progress in the last six months and are already delivering against the ambitious targets we set out in our new transformational strategy in February. As a simple, low risk, customer focused financial services provider we are well placed to succeed in a digital world and help Britain prosper.

Operating environment

The UK faces a period of political and economic uncertainty in the run-up to the UK's departure from the European Union, however the UK economy remains resilient and, excluding the impact of adverse weather, continues to demonstrate robust growth. The economy is benefiting from the highest employment rate in half a century and household indebtedness remains significantly below pre-crisis levels, with strong growth in the world economy also positive for UK exports.

Financial Performance

In the first six months we have again delivered a strong and sustainable financial performance. Underlying profit increased 7 per cent to £4.2 billion, driven by higher income and lower total costs, with statutory profit after tax increasing 38 per cent to £2.3 billion. Earnings per share increased 45 per cent to 2.9 pence per share reflecting the improved profitability while statutory return on tangible equity continued to increase and is now 12.1 per cent. Asset quality remains strong and we have seen no deterioration in the portfolio. The strong performance has also enabled capital build of 121 basis points, with the Group's CET1 ratio increasing to 15.1 per cent, on a pro forma basis.

The Board has recommended an interim ordinary dividend of 1.07 pence per share, in line with the Group's progressive and sustainable ordinary dividend policy. Good progress has also been made on the share buy back that was announced with full year results, which commenced in March and is now nearing completion. To date, we have bought back approximately 1.2 billion shares, with around 75 per cent of the £1 billion buy back already fulfilled.

We have continued to de-risk the balance sheet. In July the Prudential Regulation Authority (PRA) reduced the Group's Pillar 2A CET1 requirement to 2.7 per cent from 3.0 per cent. The Board's view of the level of CET1 capital required remains at c.13 per cent, plus a management buffer of around 1 per cent.

Business and strategic progress

In the first six months we have made significant business progress, successfully delivering Open Banking, launching Lloyds Bank Corporate Markets and continuing the planned integration of the MBNA credit card book and Zurich's UK workplace pension and savings business. These provide a strong platform for the next phase of our development.

In February we announced an ambitious strategy to transform the Group for success in a digital world. We have made a strong start in implementing the strategic initiatives which will further digitise the Group, enhance customer propositions, maximise our capabilities as an integrated financial services provider and transform the way we work.

The Group's cost discipline continues to be a competitive advantage and enables greater investment capacity and increased returns. Our market leading cost efficiency and reducing cost base are being achieved together with more than £3 billion of strategic investment over the next 3 years, a 40 per cent increase on the previous plan, which enables the transformation required to exceed customer expectations and succeed in a digital world. This transformation will generate further cost reductions, which will enable us to reduce our operating costs to less than £8 billion in 2020. It will also enable us to further enhance the customer experience and continue to both improve our financial performance and to help Britain prosper.

We operate the UK's largest branch network and the largest digital bank in the UK and continue to grow the digital bank with active users increasing to almost 14 million, including around 10 million mobile banking users. In the first half we re-platformed our mobile app enabling enhanced functionality and reducing future delivery times. We have also continued to reshape our branch network which includes our recently opened flagship branches that demonstrate improved productivity and customer satisfaction. We have also added to our fleet of mobile branches, which now cover 190 locations, and supports our commitment to maintaining the largest branch network in the UK.

Our increased technology spend, which now represents about 15 per cent of the Group's cost base, is allowing us to create efficiencies and make banking easier for customers. By enhancing machine learning and leveraging robotics, we have released c.115,000 hours of colleague capacity. We have also rolled out a single customer view platform across all three banking brands, creating a progressive single home for banking and insurance needs, with targeted customer numbers of more than 3 million by the end of the year.

As part of our Helping Britain Prosper Plan we have continued to boost support to key sectors of the economy. In the first half of the year, we launched a £2 billion Clean Growth Financing Initiative, providing discounted funding to help British businesses reduce environmental impacts and benefit from the transition to a low carbon economy. We have lent £6 billion to first time buyers and also continued to grow lending to targeted segments, including SME and consumer finance, whilst growing financial planning and retirement assets under administration by 14 per cent, or over £9 billion.

Guidance

As a result of the strong performance in the last six months, we have upgraded our financial guidance for 2018. We now expect net interest margin to be in line with the first half of the year, the asset quality ratio to be less than 25 basis points and for capital build to be c.200 basis points, at the top end of our guided range. All other longer term guidance remains unchanged.

Outlook

Our differentiated, customer focused business model continues to deliver with our multi brand, multi channel approach, cost leadership, low risk positioning, investment capacity and execution capabilities positioning us well for sustainable success in a digital world. As a result we believe that this strategy will allow us to continue to help Britain prosper whilst continuing to deliver strong and sustainable returns for shareholders.

António Horta-Osório
Group Chief Executive

SUMMARY OF GROUP RESULTS

Strong financial performance with continued improvements in statutory and underlying profit and returns

The Group's statutory profit before tax of £3,117 million was 23 per cent higher than in the first half of 2017, whilst profit after tax of £2,267 million was 38 per cent higher, both driven by increased underlying profit and a lower PPI charge. Statutory return on tangible equity improved by 3.9 percentage points to 12.1 per cent.

Underlying profit was £4,234 million, 7 per cent higher than in the first half of 2017 with higher net income and lower total costs partly offset by the expected higher impairment charge. The underlying return on tangible equity increased to 16.3 per cent.

The balance sheet remains strong with the Group's CET1 capital ratio increasing by 121 basis points, on a pro forma basis, to 15.1 per cent pre dividend and to 14.5 per cent post dividend (31 December 2017: 13.9 per cent pro forma post dividend and share buy back). The capital build includes the impact of the interim Insurance dividend paid in July 2018 and the sale of the Irish mortgage portfolio (25 basis points) which will complete later in the third quarter.

Net income

	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	6,344	5,925	7	6,395	(1)
Vocalink gain on sale	–	146		–	
Other income	3,124	3,202	(2)	2,857	9
Total income	9,468	9,273	2	9,252	2
Operating lease depreciation[1]	(497)	(495)	–	(558)	11
Net income	8,971	8,778	2	8,694	3
Banking net interest margin	2.93%	2.82%	11bp	2.90%	3bp
Average interest-earning banking assets	£436.4bn	£430.9bn	1	£438.8bn	(1)

1 Net of profits on disposal of operating lease assets of £29 million (half year to 30 June 2017: £17 million; half-year to 31 December 2017: £15 million).

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

Net income at £8,971 million was 2 per cent higher than in the first half of 2017 with growth in net interest income partly offset by lower other operating income.

Net interest income at £6,344 million increased by 7 per cent reflecting an improved net interest margin and increased average interest-earning banking assets which were 1 per cent higher at £436 billion. The net interest margin increased by 11 basis points to 2.93 per cent with lower deposit and wholesale funding costs more than offsetting continued pressure on asset margins. The margin also benefitted from changing product mix and growth in consumer finance, including the acquisition of MBNA.

The Group manages the risk to its earnings and capital from movements in interest rates centrally by hedging the net liabilities which are stable or less sensitive to movements in rates. As at 30 June 2018 the Group was fully hedged with a nominal balance of £171 billion (31 December 2017: £165 billion) and an average duration of around 4.1 years (31 December 2017: c.3 years). The Group generated £1.3 billion of income from the structural hedge balances in the period (half-year to 30 June 2017: £1.2 billion) with a fixed earnings rate of approximately 0.9 per cent over LIBOR.

Given the strong performance, the Group now expects net interest margin for 2018 to be in line with the first half of 2018 and for the margin to remain resilient over the plan period.

Other income at £3,124 million reflected a good second quarter and excluding the £146 million gain on the sale of Vocalink recognised in the first half of 2017, was slightly down year on year.

The good performance in the second quarter of £1.7 billion was primarily driven by Insurance with higher new business volumes and increased contributions in workplace pensions, increased income from bulk annuities, and lower weather related insurance claims. Commercial Banking was also up in the quarter driven by increased markets activity whilst Retail income was stable. Other income in the half includes a gain of £191 million on the sale of £11 billion of gilts and other liquid assets, compared with a £146 million gain from the £5 billion sale of such assets in the first half of 2017.

The Group now expects 2018 other income to be broadly in line with 2017 excluding Vocalink.

Total costs

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m	Change %	Half-year to 31 Dec 2017 £m	Change %
Operating costs	4,024	4,018	–	4,166	3
Remediation	257	540	52	325	21
Total costs	4,281	4,558	6	4,491	5
Cost:income ratio including remediation	47.7%	51.9%	(4.2)pp	51.7%	(4.0)pp
Cost:income ratio excluding remediation	44.9%	45.8%	(0.9)pp	47.9%	(3.0)pp

Operating costs at £4,024 million were flat compared to the first half of 2017, despite increased investment and inclusion of the MBNA cost base.

The Group continues to focus on reducing its underlying cost base, and before investment and the inclusion of MBNA operating costs reduced by 7 per cent, largely driven by increased efficiency from digitalisation, process improvement and better procurement. This cost discipline creates capacity for increased investment with investment expensed and depreciation up 14 per cent in the period.

Remediation charges were 52 per cent lower at £257 million and included additional charges of £197 million in the second quarter. The additional provision covers a number of small items and largely relates to incremental costs of existing programmes.

The Group's market leading cost:income ratio continues to provide competitive advantage and improved further to 47.7 per cent with positive jaws of 8 per cent. The Group's cost:income ratio excluding remediation also improved to 44.9 per cent.

The Group continues to target a cost:income ratio (including remediation) in the low 40's exiting 2020, with reductions every year, and for operating costs to be lower than £8 billion in 2020.

Impairment

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m	Change %	Half-year to 31 Dec 2017 £m	Change %
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

	At 30 June 2018 %	At 1 Jan 2018 %	Change
Stage 3 loans and advances to customers as a % of total	1.8	1.9	(0.1)pp
Stage 3 ECL1 allowance as a % of Stage 3 drawn balances	25.2	24.0	1.2pp

1 Expected credit loss.

Asset quality across the portfolio remains strong and stable with no deterioration in credit risk indicators. The Group's loan portfolios continue to be well positioned, reflecting our continued prudent through the cycle approach to credit risk, and benefiting from continued low interest rates and a resilient UK economy.

The gross asset quality ratio at 27 basis points remains in line with full year 2017 and 2016, despite the inclusion of MBNA. On a net basis the asset quality ratio increased to 20 basis points reflecting expected lower releases and write-backs. The impairment charge increased to £456 million in the first half of 2018, again reflecting lower releases and write-backs.

Stage 3 loans at £8.7 billion as a proportion of total loans and advances to customers have reduced to 1.8 per cent (1 January 2018: 1.9 per cent), while at the same time coverage of Stage 3 drawn balances has increased to 25.2 per cent (1 January 2018: 24.0 per cent).

Overall credit performance in the UK mortgage book remains stable. The average loan to value reduced again to 43.5 per cent (31 December 2017: 43.6 per cent) while 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). No deterioration is being seen in the portfolio with new to arrears as a proportion of total lending continuing to fall.

The unsecured portfolios also continue to perform strongly with new to arrears rates remaining stable and the MBNA portfolio performing in line with the Group's expectations. The UK motor finance book continues to perform well given resilient car prices and is benefiting from our conservative approach to residual values and prudent provisioning, including a £200 million residual value and specific event provision.

The Commercial Banking portfolio continues to benefit from effective risk management, a resilient economic environment and continued low interest rates with the increased impairment charge driven by lower releases and write-backs.

The Group now expects the asset quality ratio to be less than 25 basis points in 2018 and continues to expect less than 30 basis points through the plan period. The Group continues to expect asset quality to remain strong but with further reductions in releases and write-backs.

Statutory profit

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m	Change %	Half-year to 31 Dec 2017 £m	Change %
Underlying profit	4,234	3,952	7	3,676	15
Restructuring	(377)	(321)	(17)	(300)	(26)
Volatility and other items					
Market volatility and asset sales	34	136		143	(76)
Amortisation of purchased intangibles	(53)	(38)	(39)	(53)	–
Fair value unwind and other	(171)	(135)	(27)	(135)	(27)
	(190)	(37)		(45)	
Payment protection insurance provision	(550)	(1,050)	48	(600)	8
Statutory profit before tax	3,117	2,544	23	2,731	14
Tax expense	(850)	(905)	6	(823)	(3)

Statutory profit after tax	2,267	1,639	38	1,908	19

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

Statutory profit before tax of £3,117 million (2017: £2,544 million) increased 23 per cent, driven by the increased underlying profit and lower PPI charge. Statutory profit after tax increased by 38 per cent to £2,267 million (2017: £1,639 million).

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. The outstanding balance sheet provision at 30 June 2018 was £2 billion.

Tax expense

The tax expense was £850 million (2017: £905 million) representing an effective tax rate of 27 per cent (2017: 36 per cent). The high effective tax rate in the first half of 2017 of 36 per cent largely reflected the restrictions on deductibility of conduct provisions, which included remediation.

The Group continues to expect the effective tax rate to reduce to around 25 per cent in 2020.

Return on tangible equity

The return on tangible equity was 12.1 per cent up from 8.2 per cent in the first half of 2017, reflecting the increase in statutory profit after tax. The underlying return on tangible equity increased to 16.3 per cent (half-year to 30 June 2017: 14.5 per cent) primarily reflecting increased underlying profit.

Balance sheet

	At 30 June 2018	At 1 Jan 2018 (adjusted)1	Change %	At 31 Dec 2017 (reported)	Change %
Loans and advances to customers2	£442bn	£444bn	–	£456bn	(3)
Customer deposits3	£418bn	£416bn	–	£416bn	–
Loan to deposit ratio	106%	107%	(1.1)pp	110%	(4.1)pp
Wholesale funding	£122bn	£101bn	21	£101bn	21
Wholesale funding <1 year maturity	£38bn	£29bn	32	£29bn	32
Of which money-market funding <1 year maturity4	£25bn	£15bn	70	£15bn	70
Liquidity coverage ratio – eligible assets	£129bn			£121bn	7
Liquidity coverage ratio5	129%			127%	2.0pp

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

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

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

4 Excludes balances relating to margins of £4.0 billion (31 December 2017: £2.1 billion) and settlement accounts of £1.7 billion (31 December 2017: £1.5 billion).

5 Liquidity coverage ratio at 30 June 2018 has been prepared on a Group consolidated basis.

Group loans and advances to customers fell slightly to £442 billion with growth in targeted segments more than offset by the £4 billion sale of the Irish residential mortgage portfolio. Over the last six months, SME and Motor Finance have continued to grow whilst the open mortgage book of £267 billion is in line with the start of the year. The Group continues to expect the year end position for open mortgages to be slightly higher than the end of 2017.

Loans and advances to customers were adjusted on adoption of IFRS 9, resulting in an £11.5 billion reduction to £444 billion on 1 January 2018. This was primarily due to the reclassification of certain assets transferred from the banking business to the insurance business in recent years which have been designated at fair value, in common with other assets within the Insurance business, as well as assets which have failed the solely payments of principal and interest test.

The loan to deposit ratio was down slightly at 106 per cent. Wholesale funding increased by 21 per cent to £122 billion compared with £101 billion at 31 December 2017 reflecting increased term issuance following the end of the Bank of England’s Term Funding Scheme and an increase to our liquidity position during the period of the ring-fencing transfers through additional short term money market funding.

The Group’s liquidity surplus exceeds the regulatory minimum and internal risk appetite with a Liquidity Coverage Ratio of 129 per cent based on the EU Delegated Act at 30 June 2018 (31 December 2017: 127 per cent).

Capital

	At 30 June 2018	At 1 Jan 2018 (adjusted)1	Change %	At 31 Dec 2017 (reported)	Change %
Pro forma CET1 ratio pre 2018 dividend accrual2	15.1%	13.9%	1.2pp	13.9%	1.2pp
Pro forma CET1 ratio2	14.5%	13.9%	0.6pp	13.9%	0.6pp
Transitional total capital ratio	21.6%	21.2%	0.4pp	21.2%	0.4pp
Pro forma transitional MREL ratio2	29.7%	26.0%	3.7pp	26.0%	3.7pp
Pro forma UK leverage ratio2	5.3%	5.4%	(0.1)pp	5.4%	(0.1)pp
Risk-weighted assets	£211bn	£211bn	–	£211bn	–
Pro forma risk-weighted assets2	£207bn	£211bn	(2)	£211bn	(2)
Shareholders' equity	£43bn	£42bn	2	£44bn	(1)
Tangible net assets per share	52.1p	51.7p	0.4p	53.3p	(1.2)p

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

2 The CET1, leverage and transitional Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratios at 30 June 2018 and 31 December 2017 are reported on a pro forma basis, reflecting dividends declared by Insurance but paid in the subsequent reporting period. In addition the pro forma ratios and pro forma risk-weighted assets at 30 June 2018 reflect the sale of the Irish mortgage portfolio. The CET1 ratio at 31 December 2017 is reported post share buy back.

The Group's CET1 ratio has strengthened to 15.1 per cent on a pro forma basis, pre dividend, an increase of 121 basis points in the first half of the year. The increase includes 111 basis points generated from underlying banking profits, 8 basis points relating to the interim dividend received from the Insurance business, 25 basis points in relation to the sale of the Irish mortgage portfolio, and 5 basis points from market and other movements. These impacts were partially offset by 28 basis points for PPI charges. Post dividend accrual, the Group's pro forma CET1 ratio was 14.5 per cent (14.1 per cent excluding the impact of the interim Insurance dividend and the sale of the Irish mortgage portfolio)

The Group remains highly capital generative and given the strong first half, the Group now expects the CET1 build to be c.200 basis points pre dividend in 2018. The Group continues to expect to deliver 170 to 200 basis points every year, pre dividend, on an ongoing basis.

In July 2018, the Prudential Regulation Authority (PRA) reduced the Group's Pillar 2A CET1 requirement to 2.6 per cent from 3.0 per cent. It will increase to 2.7 per cent from 1 January 2019 following entry into force of the UK's ring-fencing regime. The Board's view of the level of CET1 capital required remains at c.13 per cent, plus a management buffer of around 1 per cent.

Total capital ratio remains strong at 21.6 per cent and the Group remains well positioned to meet its MREL from 2020 with a pro forma transitional MREL ratio at 30 June 2018 of 29.7 per cent (31 December 2017: 26.0 per cent pro forma). The leverage ratio on a pro forma basis was in line with the start of the year at 5.3 per cent (31 December 2017: 5.4 per cent).

Tangible net assets per share increased 3.3 pence to 55.0 pence, pre dividends and share buy-back. This reflects a 3.5 pence increase for statutory profit, before a reduction of 0.8 pence for the PPI charge, and a 0.6 pence benefit from reserve movements. After reflecting the payment of the dividend and the impact of the share buy-back, equivalent to 2.9 pence, tangible net assets increased to 52.1 pence (1 January 2018: 51.7 pence).

Dividend

The Board has recommended an interim ordinary dividend of 1.07 pence per share, in line with our policy to maintain a progressive and sustainable ordinary dividend.

The Board will continue to give due consideration at each year end to the return of any surplus capital. In February this year, the Board decided to return surplus capital through a share buy back programme of up to £1 billion. This commenced in March 2018 and at the time of issuing results is c.75 per cent complete having purchased c.1.2 billion shares.

UNDERLYING BASIS – SEGMENTAL ANALYSIS

Half-year to 30 June 2018

	Retail £m	&	Commercial Banking	Insurance and Wealth	Central items	Group