Lloyds Banking Group plc
Form 6-K
July 28, 2016

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

28 July 2016

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

5th Floor
25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports
under cover 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 28 July 2016
re: Half-year Report

Lloyds Banking Group plc

2016 Half-Year Results

28 July 2016

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 2016.

Statutory basis: Statutory information is set out on pages 54 to 94. 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: Underlying basis information is set out on pages 1 to 28. These 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 other items, which includes the effects of certain asset sales, the volatility relating to the Group's own debt and hedging arrangements as well as that arising in the insurance businesses, 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 announced in October 2014 and the costs of implementing regulatory reform and ring fencing;

TSB build and dual running costs and the loss relating to the TSB sale in 2015; and

payment protection insurance and other conduct provisions.

Unless otherwise stated, income statement commentaries throughout this document compare the half-year ended 30 June 2016 to the half-year ended 30 June 2015, and the balance sheet analysis compares the Group balance sheet as

at 30 June 2016 to the Group balance sheet as at 31 December 2015.
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 95.
Restatement: With effect from 1 January 2016 the unsecured personal loans business was transferred from Retail to Consumer Finance and elements of the Group's business in the Channel Islands and Isle of Man were transferred from Retail to Commercial Banking. In addition, certain mortgage lending has been reclassified as closed to new business. The results for the six months ended 30 June 2016 and the comparative periods are reported on the new basis.

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; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the exit by the UK from the European Union (EU) and the potential for one or more 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 cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of an exit by the UK from the EU, 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; requirements or limitations on the Group as a result of HM Treasury's investment in the Group; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed 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

'We have delivered a good financial performance in the first half with robust underlying profit, a doubling of statutory profit and strong capital generation, along with continued progress on our strategic initiatives.

Our success in recent years has been based on our focus on and commitment to doing the right thing for customers. Our strategy of becoming the best bank for customers and shareholders remains unchanged and we will continue to support the economy and help Britain prosper.

Following the EU referendum the outlook for the UK economy is uncertain and, while the precise impact is dependent upon a number of factors including EU negotiations and political and economic events, a deceleration of growth seems likely. The UK, however, enters this period of uncertainty from a position of strength, following continued private sector deleveraging, significantly improved mortgage affordability and low levels of unemployment. For Lloyds, our simple and low risk, UK focused, retail and commercial business model, together with the simplification and transformation of the business in recent years, position us well to continue doing the right thing for our customers and deliver strong returns for shareholders.'
António Horta-Osório, Group Chief Executive

Good financial performance with robust underlying profit, doubling of statutory profit and strong returns

Underlying profit of £4.2 billion, down 5 per cent (2 per cent excluding TSB); underlying return on required equity of 14.0 per cent

Total income 1 per cent lower at £8.9 billion

Net interest income of £5.8 billion, up 1 per cent with improved margin of 2.74 per cent

Other income 5 per cent lower at £3.1 billion, with improved performance in second quarter

Operating costs 3 per cent lower at £4.0 billion driven by the acceleration of cost initiatives. Market-leading cost:income ratio improved to 47.8 per cent

Asset quality remains strong with impairment charge of £245 million and asset quality ratio of 11 basis points

Statutory profit before tax more than doubled to £2.5 billion

Strong capital generation in second quarter of 0.5 percentage points after 0.3 percentage point impact of EU referendum

Strong balance sheet with common equity tier 1 (CET1) ratio of 13.0 per cent post dividend (13.5 per cent pre dividend); leverage ratio of 4.7 per cent

Tangible net assets per share of 55.0 pence (2015: 52.3 pence) after payment of 2015 final dividend of 2.0 pence

Continued acceleration of strategy in line with customers' evolving needs

Simplification targets enhanced with additional cost initiatives now targeted

Closure of additional c.200 branches and further c.3,000 role reductions by the end of 2017

Simplification run-rate savings target increased from £1.0 billion to £1.4 billion by the end of 2017

In addition, rationalisation of non-branch property portfolio to be undertaken with c.30 per cent reduction by the end of 2018

2016 guidance for NIM and cost:income ratio reaffirmed with AQR and capital generation updated

Net interest margin for the full year of around 2.70 per cent

Full year cost:income ratio to be lower than 2015 ratio of 49.3 per cent

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

The impact on the Group of the referendum is dependent on economic and political outcomes which remain uncertain, however we now expect to generate around 160 basis points of CET1 capital in 2016 pre dividend, due to the impact of the EU referendum, in particular the effect of FX rates on RWAs

Given the uncertainty, it is too early to determine the impact on our formal longer term guidance at this stage. However, while the business will remain highly capital generative, it is possible that this capital generation may be somewhat lower in future years than previously guided. We will formally update guidance when we have a clearer view of likely outcomes

Dividend

Interim ordinary dividend of 0.85 pence per share, up 13 per cent, in line with our progressive and sustainable approach to ordinary dividends.

CONSOLIDATED INCOME STATEMENT – UNDERLYING BASIS

	Half-year to 30 June 2016 £ million	Half-year to 30 June 2015 £ million	Change %	Half-year to 31 Dec 2015 £ million	Change %
Net interest income	5,782	5,715	1	5,767	–
Other income	3,093	3,253	(5)	2,902	7
Total income	8,875	8,968	(1)	8,669	2
Operating costs	(4,041)	(4,150)	3	(4,161)	3
Operating lease depreciation	(428)	(374)	(14)	(390)	(10)
Impairment	(245)	(179)	(37)	(389)	37
Underlying profit excluding TSB	4,161	4,265	(2)	3,729	12
TSB	–	118		–	
Underlying profit	4,161	4,383	(5)	3,729	12
Enhanced Capital Notes	(790)	(390)		289	
Market volatility and other items	(150)	(188)		(427)	

Restructuring costs	(307)	(32)		(138)	
Conduct provisions	(460)	(1,835)		(3,002)	
TSB costs	–	(745)		–	
Profit before tax – statutory	2,454	1,193	106	451	
Taxation	(597)	(268)		(420)	
Profit for the period	1,857	925	101	31	
Underlying earnings per share	3.9p	4.6p	(0.7)p	3.9p	–
Earnings (loss) per share	2.3p	1.0p	1.3p	(0.2)p	2.5p
Banking net interest margin	2.74%	2.62%	12bp	2.64%	10bp
Average interest-earning banking assets	£437bn	£445bn	(2)	£439bn	–
Cost:income ratio	47.8%	48.3%	(0.5)pp	50.3%	(2.5)pp
Asset quality ratio	0.11%	0.09%	2bp	0.19%	(8)bp
Return on risk-weighted assets	3.75%	3.78%	(3)bp	3.29%	46bp
Return on assets	1.01%	1.05%	(4)bp	0.91%	10bp
Underlying return on required equity	14.0%	16.2%	(2.2)pp	13.9%	0.1pp
Statutory return on required equity	8.3%	3.7%	4.6pp	(0.7)%	9.0pp

BALANCE SHEET AND KEY RATIOS

	At 30 June 2016	At 31 Dec 2015	Change %
Loans and advances to customers	£453bn	£455bn	–
Customer deposits	£423bn	£418bn	1
Loan to deposit ratio	107%	109%	(2)pp
Common equity tier 1 ratio[1,2]	13.0%	13.0%	–
Transitional total capital ratio	21.8%	21.5%	0.3pp
Risk-weighted assets[1]	£222bn	£223bn	–
Leverage ratio[1,2]	4.7%	4.8%	(0.1)pp
Tangible net assets per share	55.0p	52.3p	2.7p

1 Reported on a fully loaded basis.

2 The common equity tier 1 and leverage ratios at 31 December 2015 are reported on a pro forma basis, including the dividend paid by the Insurance business in February 2016 relating to 2015.

SUMMARY CONSOLIDATED BALANCE SHEET

Assets	At 30 June 2016 £ million	At 31 Dec 2015 £ million
Cash and balances at central banks	73,399	58,417
Trading and other financial assets at fair value through profit or loss	146,177	140,536
Derivative financial instruments	47,323	29,467
Loans and receivables:		

Loans and advances to customers	453,033	455,175
Loans and advances to banks	25,958	25,117
Debt securities	3,996	4,191
	482,987	484,483
Available-for-sale financial assets	35,860	33,032
Held-to-maturity investments	21,500	19,808
Other assets	40,986	40,945
Total assets	848,232	806,688
Liabilities		
Deposits from banks	23,162	16,925
Customer deposits	423,279	418,326
Trading and other financial liabilities at fair value through profit or loss	52,094	51,863
Derivative financial instruments	42,376	26,301
Debt securities in issue	88,758	82,056
Liabilities arising from insurance and investment contracts	107,722	103,071
Subordinated liabilities	22,935	23,312
Other liabilities	38,968	37,854
Total liabilities	799,294	759,708
Shareholders' equity	43,151	41,234
Other equity instruments	5,355	5,355
Non-controlling interests	432	391
Total equity	48,938	46,980
Total liabilities and equity	848,232	806,688

GROUP CHIEF EXECUTIVE'S STATEMENT

We have delivered a good financial performance in the first half of 2016, with robust underlying profit, a doubling of statutory profit and strong capital generation, along with continued progress on our strategic initiatives. Our differentiated, UK focused, retail and commercial business model continues to deliver, and our financial strength, coupled with our cost leadership and low risk approach, position us well in the face of current market uncertainty. Our strategy of becoming the best bank for customers and shareholders remains unchanged and we will continue to support the economy and help Britain prosper in the months and years ahead.

Market positioning

Following the EU referendum the outlook for the UK economy is uncertain and, while the precise impact is dependent upon a number of factors, including EU negotiations and political and economic events, a deceleration of growth seems likely. Given the sustainable recovery in recent years, the UK economy enters this period of uncertainty from a position of strength and is well positioned to face any economic headwinds. The simplification and transformation of the business in recent years and our prudent approach to risk position us well to continue to deliver strong returns to our shareholders.

As a simple, UK focused bank we have benefited from the sustainable nature of the recovery in the UK economy. In recent years house prices have increased, businesses and consumers have been deleveraging, more people are in work with unemployment at a record low, and wages have been growing.

These improvements in the economy and our low risk approach are reflected in the quality of our lending portfolios and we continue to de-risk the business. In Buy-to-let mortgages we have grown significantly below the market, and in London we have restricted our share of mortgage flow through loan-to-income caps. In Commercial Banking we have reduced our exposure to higher risk segments through a selective participation strategy.

Our market-leading cost position also continues to provide competitive advantage in a challenging environment, and our cost:income ratio further improved to 47.8 per cent in the first half of this year. In addition, we have one of the strongest capital and funding positions amongst the major banks worldwide, as demonstrated by our continued successful issuance of wholesale funding post-referendum. Our low cost, low risk, differentiated capital generative business model is structured to be resilient through the economic cycle.

The regulatory environment continues to evolve and there remain a number of areas on which we expect clarity soon, including the Financial Conduct Authority's (FCA) consultation into a proposed time-bar for PPI complaints, the final outcome of the Competition and Market Authority (CMA) review and some of the consultation papers on the capital framework. Clarity on these areas will build on the good progress made by global regulators in finalising their overall approach to capital, liquidity and solvency. Given the strength of our balance sheet and our underlying capital generation, we are well placed to meet these evolving regulatory requirements.

Financial performance

Underlying profit of £4.2 billion was 5 per cent lower than the same period last year (or 2 per cent lower excluding TSB), driven by a slight decrease in income and an increase in the impairment charge from historically low levels. This was partly offset by a 3 per cent reduction in operating costs as we continue to simplify the business. Underlying return on required equity was strong at 14.0 per cent. Statutory profit before tax of £2.5 billion was more than double that of the same period in 2015, driven by a significant reduction in conduct charges and the gain on sale of our stake in Visa Europe. Statutory return on required equity has improved to 8.3 per cent.

We have again demonstrated the capital generative nature of the business, generating 50 basis points of common equity tier 1 (CET1) capital in the second quarter, despite a 30 basis point impact from the EU referendum. Our balance sheet remains strong with a CET1 ratio of 13.0 per cent post-dividend and a leverage ratio of 4.7 per cent.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Dividend

In 2015 the Group paid its first significant dividend since the financial crisis. In line with our progressive and sustainable ordinary dividend policy, we are pleased to be announcing a 13 per cent increase in the interim ordinary dividend to 0.85 pence per share. As previously indicated the Board will assess the capital position, the level of final dividend and whether the distribution of surplus capital is appropriate with the full year results.

Strategic progress

We have continued to make significant progress on each of our three strategic priorities: creating the best customer experience; becoming simpler and more efficient; and delivering sustainable growth.

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 over 12 million online users and more than 7 million users of our top-rated mobile banking app. 60 per cent of customer needs are now being met digitally, and the digital channel is now the number one choice for customers taking out new loans or credit cards. At the same time we continue to invest in the branch network and new propositions to improve how customers interact with us. In Commercial Banking we have continued to invest to enhance client propositions and improve key processes, including improvements in the online banking platform and reduced new account opening times. In Consumer Finance, Black Horse has been recognised with several awards for its innovative new funding platform, Sign-IT, which reduced processing times for new loans, while increasing security and protection for customers. In Insurance we have introduced an online tool allowing customers to consolidate their workplace pension assets, enabling them to make informed decisions about their pension plans.

Our progress in creating the best customer experience is reflected in the Group's customer satisfaction metrics, with the net promoter score over 50 per cent higher than at the end of 2011. In addition, Group reportable banking complaints remain significantly lower than our major peer group average.

Becoming simpler and more efficient

Our cost leadership position is a significant source of competitive advantage and remains a strategic priority. Within the 2015 full year results we announced we were actively responding to lower rates by accelerating cost delivery and targeting further savings. We are consequently now ahead of target in delivering the planned £1.0 billion of run-rate savings under the current Simplification programme, having already achieved £0.6 billion. In response to evolving customer behaviours we are extending the scope of the Simplification programme to include an additional c.200 branch closures, and a further c.3,000 role reductions. This will generate significant additional cost savings and, as a result, we have increased the Simplification run-rate savings target for the end of 2017 from £1.0 billion to £1.4 billion. In addition, we are targeting a c.30 per cent reduction in our non-branch property portfolio by the end of 2018.

Delivering sustainable growth

The Group aims to deliver sustainable growth across its key customer segments, consistent with its low risk business model. We have continued to make good progress in growing market share in areas where we are underrepresented, including our lending to SME customers, motor finance and credit card balances. In addition, we remain committed to supporting first-time buyers and continue to be the largest lender to this customer group. However, across the broader mortgage market, we continue to balance margin and risk considerations with volume growth. This approach, which has meant that we have grown below the market in the past 12 months, positions us well, ahead of any potential slowdown in the UK economy. In Insurance we have built on our recent success in bulk annuities by completing another three deals in the second quarter, demonstrating how our insurance capabilities and expertise can benefit Commercial Banking clients.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Guidance

Following the good financial performance in the first half of the year, we have reaffirmed our 2016 guidance for net interest margin and cost:income ratio. We continue to expect net interest margin for the full year to be around 2.70 per cent and for the cost:income ratio to be lower than the 49.3 per cent reported in 2015. Given the strong credit environment, we have improved our asset quality ratio guidance and now expect the full year ratio to be less than 20 basis points.

The impact on the Group of the EU referendum is dependent on economic and political outcomes, which remain uncertain. However, in 2016 we now expect to generate around 160 basis points of CET1 capital pre dividend, due to the impact of the EU referendum, in particular the effect of FX rates on risk-weighted assets.

Given the uncertainty, it is too early to determine the impact on our formal longer term guidance at this stage. However, while the business will remain highly capital generative, it is possible that this capital generation may be somewhat lower in future years than previously guided. We will formally update guidance when we have a clearer view of likely outcomes.

Outlook
As a result of the continued successful delivery of our strategy in recent years, we are in a strong position to withstand the uncertainty in our sector and the wider market, both now and in the future. This gives me great confidence that we will continue to support the UK economy, help Britain prosper and become the best bank for customers and shareholders.

António Horta-Osório
Group Chief Executive

REVIEW OF FINANCIAL PERFORMANCE

Good financial performance with robust underlying profit, doubling of statutory profit and strong returns
The Group's underlying profit was £4,161 million, 5 per cent lower than in the first half of 2015, driven by a 1 per cent fall in income and higher impairments, partly offset by lower costs. Statutory profit before tax more than doubled to £2,454 million compared with £1,193 million in 2015, and included the £790 million charge relating to the redemption of ECNs in the first quarter and conduct provisions of £460 million. The underlying return on required equity was 14.0 per cent and statutory return on required equity was 8.3 per cent.

Total loans and advances to customers were £453 billion, a reduction of £2 billion since 31 December 2015, and customer deposits were £5 billion higher at £423 billion.

The Group generated 0.5 percentage points of common equity tier 1 (CET1) in the period and the CET1 ratio was 13.0 per cent at 30 June 2016 after accruing for 2016 ordinary dividends. The tangible net asset value per share increased to 55.0 pence (31 December 2015: 52.3 pence) after payment of the 2015 final dividend of 2.0 pence.

Total income

	Half-year to 30 June 2016 £ million	Half-year to 30 June 2015 £ million	Change %	Half-year to 31 Dec 2015 £ million	Change %
Net interest income	5,782	5,715	1	5,767	–
Other income	3,093	3,253	(5)	2,902	7
Total income	8,875	8,968	(1)	8,669	2
Banking net interest margin	2.74%	2.62%	12bp	2.64%	10bp
Average interest-earning banking assets	£436.9bn	£444.8bn	(2)	£438.9bn	–
Average interest-earning banking assets excluding run-off	£426.0bn	£428.4bn	(1)	£426.6bn	–

Further detail on net interest income and other income is included on pages 25 and 26.

Total income of £8,875 million was 1 per cent lower than in the first half of 2015, with a 1 per cent increase in net interest income more than offset by a 5 per cent reduction in other income.

Net interest income increased 1 per cent to £5,782 million reflecting the improvement in net interest margin to 2.74 per cent (half-year to 30 June 2015: 2.62 per cent) partly offset by the impact of the 1 per cent reduction in average interest-earning banking assets excluding run-off with growth in SME and Consumer Finance lending more than offset by the reductions in mortgages and Global Corporates. The increase in the net interest margin was due to lower deposit and wholesale funding costs and the benefit from the ECN redemptions in the first quarter, which in total more than offset the pressure on asset pricing. The Group continues to expect that the net interest margin for the 2016 full year will be around 2.70 per cent, in line with the guidance given with the 2015 full year results.

The Group manages the risk to its capital and earnings from adverse movements in interest rates centrally, with exposures subject to a set of Board risk appetite measures. Liabilities which are deemed to be stable or less sensitive to changes in market interest rates are hedged, including current accounts, investible shareholders' equity and some variable rate deposits via a portfolio of receive fixed interest rate swaps of varying tenors of up to 10 years. The notional coverage and target duration is actively reviewed depending upon both market and business conditions.

As at 30 June 2016, the current notional hedge was c.£120 billion with an average duration of c.3 years and an earning rate of approximately 1.3 per cent over LIBOR. In the first half of 2016, income from the Structural Hedge totalled £0.8 billion over LIBOR (first half of 2015: £0.9 billion).

Other income at £3,093 million was in line with expectations for 2016 with improved income in the second quarter, but 5 per cent lower than in the first half of 2015. The reduction compared with 2015 was largely due to lower insurance income, the continued pressure on fees and commissions and reduced income from the run-off portfolio.

REVIEW OF FINANCIAL PERFORMANCE (continued)

Costs

	Half-year to 30 June 2016 £ million	Half-year to 30 June 2015 £ million	Change %	Half-year to 31 Dec 2015 £ million	Change %
Operating costs	4,041	4,150	3	4,161	3
Cost:income ratio	47.8%	48.3%	(0.5)pp	50.3%	(2.5)pp
Operating jaws	1%				
Simplification savings annual run-rate	642	225		373	72

Operating costs were £4,041 million, 3 per cent lower than 2015, reflecting the Group's continued progress in delivering efficiency savings whilst continuing to invest in the business. Operating jaws were positive 1 per cent with the cost:income ratio improving to 47.8 per cent from 48.3 per cent in 2015.

The Simplification programme has delivered £642 million of annual run-rate savings to date out of the target to deliver £1 billion of savings by the end of 2017. As a result of changing customer behaviours and the expected lower for longer interest rate environment, the scope of the programme announced in the Group Strategic Update in 2014 has now been extended to include the closure of a further c.200 branches and further role reductions of c.3,000 by the end of 2017. As a consequence the annual Simplification run-rate savings target has been increased from £1.0 billion to £1.4 billion. The total spent on the programme to date is £1.1 billion with an expected further spend of £1.1 billion by the end of 2017 of which around £350 million will be included in restructuring costs.

We are also now targeting a reduction of c.30 per cent in the non-branch property portfolio. This initiative is expected to deliver a one-off saving of around £100 million and an additional £100 million of annual run-rate savings by the end of 2018 at an additional cost of around £300 million, all of which will be included in restructuring costs.

Operating lease depreciation increased 14 per cent to £428 million due to further growth in the Lex Autolease business and an accelerated depreciation charge recognised by Commercial Banking.

Impairment

	Half-year to 30 June 2016 £ million	Half-year to 30 June 2015 £ million	Change %	Half-year to 31 Dec 2015 £ million	Change %
Impairment charge	245	179	(37)	389	37
Asset quality ratio	0.11%	0.09%	2bp	0.19%	(8)bp
Gross asset quality ratio	0.26%	0.25%	1bp	0.31%	(5)bp
Impaired loans as a % of closing advances	2.0%	2.7%	(0.7)pp	2.1%	(0.1)pp

The impairment charge increased to £245 million compared to £179 million in the first half of 2015 largely due to a reduction in the level of provision releases and lower write-backs from debt sales. The asset quality ratio was 11 basis points in the first half compared with 9 basis points in 2015 and the gross asset quality ratio (excluding releases and write-backs) was stable at 26 basis points compared with 25 basis points in the first half of 2015. We now expect the 2016 full year asset quality ratio will be less than 20 basis points.

The credit quality of the Group's lending book is strong and has improved significantly over the last five years with the Group's prudent through-the-cycle approach to credit risk appetite. At 30 June 2016, only 9 per cent of mortgages had a LTV of greater than 80 per cent compared with 43 per cent at 31 December 2010 and recent growth in buy-to-let lending has been significantly below the market. The Commercial Banking book has also been de-risked substantially through corporate deleveraging and a c.70 per cent reduction in commercial real estate (CRE) exposures since December 2010 from £71 billion to £20 billion at 30 June 2016.

Impaired loans at 30 June 2016 were £9.3 billion, 2.0 per cent of total loans and advances compared with £9.6 billion, and 2.1 per cent at 31 December 2015 largely as a result of reductions in Commercial Banking and Consumer Finance.

REVIEW OF FINANCIAL PERFORMANCE (continued)

Statutory profit

	Half-year to 30 June 2016 £ million	Half-year to 30 June 2015 £ million	Change %	Half-year to 31 Dec 2015 £ million	Change %
Underlying profit	4,161	4,383	(5)	3,729	12
Enhanced Capital Notes	(790)	(390)		289	
Market volatility and other items:					
Market volatility and asset sales	128	53		(134)	
Fair value unwind	(110)	(77)		(115)	
Other items	(168)	(164)		(178)	
	(150)	(188)		(427)	
Restructuring costs	(307)	(32)		(138)	

Conduct provisions	(460)	(1,835)		(3,002)
TSB costs	–	(745)		–
Profit before tax – statutory	2,454	1,193	106	451
Taxation	(597)	(268)		(420)
Profit for the period	1,857	925	101	31

Further information on the reconciliation of underlying to statutory results is included on page 24.

Statutory profit before tax was £2,454 million, more than double the profit in the same period in 2015.

The loss relating to the ECNs in the first half was £790 million, representing the write-off of the embedded derivative and the premium paid on the redemption of the remaining notes completed in the first quarter of 2016. The Supreme Court has now heard the ECN trustee's appeal and found in favour of the Group, which supported the redemption of the ECNs earlier this year.

Market volatility and asset sales of £128 million included a gain on sale of Visa Europe of £484 million and negative insurance volatility of £372 million, primarily driven by widening credit spreads and low returns on cash investments. The credit in 2015 included positive insurance volatility of £18 million. The fair value unwind was negative £110 million in the first half of 2016 compared with negative £77 million in 2015 and largely comprised the unwind of fair value adjustments made against HBOS subordinated debt at the time of the acquisition in 2008. Other items of negative £168 million related to the amortisation of intangible assets.

Restructuring costs were £307 million and included severance related costs of the Simplification programme together with £60 million relating to work on implementing the ring-fencing requirements.

There was a charge of £460 million to cover a range of conduct issues of which £345 million was recognised in the second quarter. The charge for the half-year included £215 million in respect of arrears related activities on secured and unsecured retail products, £70 million in respect of complaints relating to packaged bank accounts and £50 million related to insurance products sold in Germany. In addition there were a number of smaller additions to existing conduct risk provisions totalling £125 million across all divisions.

In May, the FCA informed the Group that it was commencing an investigation in connection with the Group's mortgage arrears handling. At this stage it is not possible to make an assessment of the outcome of this ongoing review.

REVIEW OF FINANCIAL PERFORMANCE (continued)

No further provision has been taken for PPI, where complaint levels over the first half have been around 8,500 per week on average, broadly in line with expectations. The Group's current PPI provision reflects our interpretation of the Financial Conduct Authority's (FCA) consultation paper regarding a potential time bar and the Plevin case and conclusion by mid-2018. The Group awaits the FCA's final decision however, should the time bar be longer than the proposed two years or the FCA's final decision be significantly delayed, then the Group may need to reassess its provision.

Statutory profit in the first half of 2015 included a charge of £745 million comprising £660 million relating to the sale of TSB and £85 million of TSB dual running costs.

Taxation

The tax charge for the first half was £597 million (2015: £268 million) representing an effective tax rate of 24 per cent (2015: 22 per cent). The effective tax rate reflects the impact of tax exempt gains and capital losses not previously recognised. The Group continues to expect a medium term effective tax rate of around 27 per cent.

Return on required equity

The underlying return on required equity remains strong at 14.0 per cent (2015: 16.2 per cent). The reduction was due largely to the higher underlying tax charge following implementation of the banking tax surcharge.

The statutory return on required equity increased to 8.3 per cent (2015: 3.7 per cent) largely reflecting the lower conduct provisions made in the period.

REVIEW OF FINANCIAL PERFORMANCE (continued)

Balance sheet

	At 30 June 2016	At 31 Dec 2015	Change %
Loans and advances to customers	£453bn	£455bn	–
Customer deposits	£423bn	£418bn	1
Wholesale funding	£131bn	£120bn	9
Wholesale funding <1 year maturity	£51bn	£38bn	36
Of which money-market funding <1 year maturity[1]	£24bn	£22bn	11
Loan to deposit ratio	107%	109%	(2)pp
Liquidity coverage ratio – eligible assets	£142bn	£123bn	15

[1] Excludes balances relating to margins of £6.8 billion (31 December 2015: £2.5 billion) and settlement accounts of £1.4 billion (31 December 2015: £1.4 billion).

Loans and advances to customers were £453 billion compared with £455 billion at 31 December 2015. There was continued strong growth in Consumer Finance, up 7 per cent, and SME lending, up 3 per cent with both segments outperforming the market. This was offset by further reductions in run-off and closed portfolios, reduced lending to larger corporates and lower 'open book' mortgage balances which fell by £3.4 billion reflecting our prudent stance on risk and the Group's focus on protecting margin in the current competitive low growth market.

Deposits increased 1 per cent to £423 billion largely due to the success in attracting high quality deposits from commercial clients.

Wholesale funding increased to £131 billion (31 December 2015: £120 billion) mainly due to an increase in cash margins and FX movements following the EU referendum. Wholesale funding less than 1 year increased in the period due to approximately £6 billion of term funding falling into the sub 1 year maturity profile, with the remainder of the increase driven by currency revaluation and cash margins.

The Group's liquidity position remains strong, with liquidity coverage ratio (LCR) eligible assets increasing to £142 billion (December 2015: £123 billion). The growth in LCR eligible assets has been driven by a combination of the management actions taken ahead of the EU referendum, as well as net collateral inflows and mark to market increases on liquid asset securities since 23 June. LCR eligible assets represent broadly six times the Group's money-market funding with a maturity of less than one year and continue to be in excess of total wholesale funding. The Group's LCR ratio already exceeds regulatory requirements and is greater than 100 per cent.

REVIEW OF FINANCIAL PERFORMANCE (continued)

Capital ratios and risk-weighted assets

	At 30 June 2016	At 31 Dec 2015	Change %
Common equity tier 1 ratio[1,2]	13.0%	13.0%	–
Transitional tier 1 capital ratio	16.4%	16.4%	–
Transitional total capital ratio	21.8%	21.5%	0.3pp
Leverage ratio[1,2]	4.7%	4.8%	(0.1)pp
Risk-weighted assets[1]	£222bn	£223bn	–
Shareholders' equity	£43bn	£41bn	5
Tangible net assets per share	55.0p	52.3p	2.7p

1 Reported on a fully loaded basis.

2 The common equity tier 1 and leverage ratios at 31 December 2015 are reported on a pro forma basis, including the dividend paid by the Insurance business in February 2016 relating to 2015.

The Group maintained its capital strength with a fully loaded common equity tier 1 ratio of 13.0 per cent (31 December 2015: 13.0 per cent pro forma) after accruing for foreseeable 2016 ordinary dividends and assuming a conventional one third, two thirds payment pattern. The actual final dividend payment will be assessed by the Board at the end of the year.

The Group generated 0.5 percentage points of CET1 capital in the first half, all of which relates to the second quarter, which was after a reduction of around 0.3 percentage points as a result of the outcome of the EU referendum, largely relating to FX movements on risk-weighted assets. As a consequence, we now expect to generate around 160 basis points of CET1 capital in 2016, pre dividend.

Given the uncertainty, it is too early to determine the impact on our formal longer term guidance at this stage. However, while the business will remain highly capital generative, it is possible that this capital generation may be somewhat lower in future years than previously guided. We will formally update guidance when we have a clearer view of likely outcomes.

The leverage ratio reduced to 4.7 per cent primarily reflecting the increase in balance sheet assets arising from market movements and cash collateral inflows following the outcome of the EU referendum.

Tangible net assets per share was 55.0 pence at 30 June 2016, an increase of 2.7 pence since December 2015 after payment of the 2015 final ordinary and special dividends of 2.0 pence in the second quarter.

Dividend

In line with its progressive and sustainable dividend policy, the Group has increased its interim ordinary dividend by 13 per cent to 0.85 pence per share. The ordinary dividend in the first half amounted to £607 million.

UNDERLYING BASIS – SEGMENTAL ANALYSIS

Half-year to 30 June 2016	Retail	Commercial Banking	Consumer Finance	Insurance	Run-off and Central items	Group
	£m	£m	£m	£m	£m	£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 costs	(2,144)	(1,035)	(466)	(395)	(1)	(4,041)
Operating lease depreciation	–	(52)	(368)	–	(8)	(428)
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%

Half-year to 30 June 2015	Retail1	Commercial Banking1	Consumer Finance1	Insurance	Run-off and Central items	Group
	£m	£m	£m	£m	£m	£m
Net interest income	3,364	1,266	1,005	(73)	153	5,715
Other income	554	1,027	678	1,025	(31)	3,253
Total income	3,918	2,293	1,683	952	122	8,968
Operating costs	(2,181)	(1,059)	(506)	(368)	(36)	(4,150)
Operating lease depreciation	–	(14)	(353)	–	(7)	(374)
Impairment	(134)	(8)	(68)	–	31	(179)
Underlying profit excluding TSB	1,603	1,212	756	584	110	4,265
TSB						118
Underlying profit						4,383
Banking net interest margin	2.25%	2.85%	6.96%			2.62%
Average interest-earning banking assets	£307.4bn	£91.1bn	£29.9bn		£16.3bn	£444.8bn
Asset quality ratio	0.09%	0.04%	0.47%			0.09%
Return on risk-weighted assets	5.94%	2.31%	4.67%			3.78%

Half-year to 31 Dec 2015	Retail1	Commercial Banking1	Consumer Finance1	Insurance	Run-off and Central items	Group
	£m	£m	£m	£m	£m	£m
Net interest income	3,300	1,310	949	(90)	298	5,767
Other income	561	1,045	681	802	(187)	2,902
Total income	3,861	2,355	1,630	712	111	8,669

Operating costs	(2,158)	(1,103)	(471)	(334)	(95)	(4,161)
Operating lease depreciation	–	(16)	(367)	–	(7)	(390)
Impairment	(215)	30	(167)	–	(37)	(389)
Underlying profit (loss)	1,488	1,266	625	378	(28)	3,729
Banking net interest margin	2.20%	3.10%	6.29%			2.64%
Average interest-earning banking assets	£306.6bn	£88.9bn	£31.1bn		£12.3bn	£438.9bn
Asset quality ratio	0.14%	(0.02)%	1.06%			0.19%
Return on risk-weighted assets	5.50%	2.43%	3.87%			3.29%

1 Restated. See basis of presentation on the inside front cover.

UNDERLYING BASIS – SEGMENTAL ANALYSIS (continued)

	Loans and advances		Customer deposits		Total customer balances2		Risk-weighted assets	
	30 June 2016 £bn	31 Dec 2015 £bn	30 June 2016 £bn	31 Dec 2015 £bn	30 June 2016 £bn	31 Dec 2015 £bn	30 June 2016 £bn	31 Dec 2015 £bn
Retail1	300.5	305.6	271.3	273.7	571.8	579.3	55.2	54.6
Commercial Banking1	102.0	102.0	141.4	131.9	243.4	233.9	101.8	103.2
Consumer Finance1	33.7	31.5	9.1	11.1	46.5	46.1	31.1	30.7
Run-off and Central items	16.8	16.1	1.5	1.6	18.3	17.7	23.4	23.6
Threshold risk-weighted assets							10.8	10.6
Group	453.0	455.2	423.3	418.3	880.0	877.0	222.3	222.7

1 Restated. See basis of presentation on the inside front cover.

2 Total customer balances comprise loans and advances to customers, customer deposit balances and Consumer Finance operating lease assets.

UNDERLYING BASIS – QUARTERLY INFORMATION

	Quarter ended 30 June 2016 £m	Quarter ended 31 Mar 2016 £m	Quarter ended 31 Dec 2015 £m	Quarter ended 30 Se £m
Net interest income	2,876	2,906	2,904	2,863
Other income	1,616	1,477	1,528	1,374
Total income	4,492	4,383	4,432	4,237
Operating costs	(2,054)	(1,987)	(2,242)	(1,919)
Operating lease depreciation	(235)	(193)	(201)	(189)
Impairment	(96)	(149)	(232)	(157)
Underlying profit	2,107	2,054	1,757	1,972
Enhanced Capital Notes	–	(790)	268	21
	184	(334)	(29)	(398)

Market volatility and other items				
Restructuring costs	(146)	(161)	(101)	(37)
Conduct provisions	(345)	(115)	(2,402)	(600)
Statutory profit (loss) before tax	1,800	654	(507)	958
Banking net interest margin	2.74%	2.74%	2.64%	2.64%
Average interest-earning banking assets	£435.6bn	£438.2bn	£439.2bn	£438.7bn
Cost:income ratio	48.2%	47.4%	53.0%	47.4%
Asset quality ratio	0.09%	0.14%	0.22%	0.15%
Return on risk-weighted assets	3.79%	3.70%	3.12%	3.47%

DIVISIONAL HIGHLIGHTS

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. Our aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value to customers, and by providing them with greater choice and flexibility. We will maintain our multi-brand and multi-channel strategy and continue to simplify the business and provide more transparent products, helping to improve service levels and reduce conduct risks.

Progress against strategic initiatives

Largest digital bank in the UK with over 12 million active online users including 7 million mobile users.

Continued to attract new customers through positive switching activity, particularly through the Halifax challenger brand which has attracted more than 1 in 5 customers switching in the first half of 2016.

Continued to improve our customer proposition including the launch of Android Pay and our announced support for the proposed Pay by Bank app.

Leading the way on the Government's drive for improved financial inclusion by providing 1 in 3 basic bank accounts to disadvantaged and low income customers. January also saw the launch of the new Basic Bank Account, improving access to banking within the UK in line with industry changes.

We remain committed to supporting first-time buyers and continue to be the largest lender to this customer group. Retail continues to be a leading supporter of the UK government's Help to Buy scheme, with lending of £4.1 billion under the mortgage guarantee element of the scheme to date.

On track to help 100,000 start-up businesses get off the ground in 2016. Continuing to improve our proposition to small business customers, launching a range of new to market products and services.

Continued to expand the use of Remote Advice (Video Interview) expansion across Mortgages, Wealth and Retail Business Banking.

In March, Halifax became one of the first high street banks to offer Video Mortgage Interviews for customers from the comfort of their own home.
o
So far over 1,000 interviews have taken place, with record customer satisfaction levels, 98 per cent of customers rated the service as Excellent or Good, NPS average of 78 per cent.

Financial performance

Underlying profit decreased 3 per cent to £1,548 million, with lower net interest income and a slightly higher impairment charge partially offset by a reduction in operating costs.

Net interest income has decreased 2 per cent driven in part by a reduction in balances as we focus on protecting margins.

Other income in line with 2015.

Total costs decreased 2 per cent to £2,144 million as efficiency savings more than covered a 20 per cent increase in investment. Staff numbers have reduced by 5 per cent in the 12 months to June 2016.

Impairment increased by £28 million to £162 million.

Loans and advances to customers fell 2 per cent to £300.5 billion in the first half of 2016, with the open mortgage book (excluding specialist mortgage book and Intelligent Finance) reducing 1 per cent reflecting actions to protect the net interest margin in a highly competitive low growth environment.

Customer deposits decreased 1 per cent to £271.3 billion, driven by a reduction in tactical balances.

Risk-weighted assets increased by £0.6 billion to £55.2 billion.

RETAIL (continued)

	Half-year to 30 June 2016 £m	Half-year to 30 June 20151 £m	Change %	Half-year to 31 Dec 20151 £m	Change %
Net interest income	3,296	3,364	(2)	3,300	–
Other income	558	554	1	561	(1)
Total income	3,854	3,918	(2)	3,861	–
Operating costs	(2,144)	(2,181)	2	(2,158)	1

Operating lease depreciation	–	–		–	
Impairment	(162)	(134)	(21)	(215)	25
Underlying profit	1,548	1,603	(3)	1,488	4
Banking net interest margin	2.23%	2.25%	(2)bp	2.20%	3bp
Average interest-earning banking assets	£305.0bn	£307.4bn	(1)	£306.6bn	(1)
Asset quality ratio	0.11%	0.09%	2bp	0.14%	(3)bp
Return on risk-weighted assets	5.70%	5.94%	(24)bp	5.50%	20bp
Return on assets	1.02%	1.05%	(3)bp	0.96%	6bp

Key balance sheet items	At 30 June 2016	At 31 Dec 2015[1]	Change
	£bn	£bn	%
Loans and advances excluding closed portfolios	272.0	275.5	(1)
Closed portfolios	28.5	30.1	(5)
Loans and advances to customers	300.5	305.6	(2)
Relationship balances	249.9	249.3	
Tactical balances	21.4	24.4	(12)
Customer deposits	271.3	273.7	(1)
Total customer balances	571.8	579.3	(1)
Risk-weighted assets	55.2	54.6	1

1 Restated. See basis of presentation on the inside front cover.

COMMERCIAL BANKING

Commercial Banking has been supporting British business for over 250 years. It has a client-led, low risk, capital efficient strategy, helping UK-based clients and international clients with a link to the UK. Through our four client facing divisions – SME, Mid Markets, Global Corporates and Financial Institutions – we provide 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

Good progress against strategic initiatives has delivered underlying profit growth and increased returns.

Remain committed to supporting SME and Mid Market companies in the UK, increasing lending by £2 billion year-on-year and providing UK Manufacturers with over £500 million of funding support in 2016.

The Financial Institution franchise has delivered solid income growth across a wide product set.

Strengthened the balance sheet in Global Corporates through disciplined capital usage and strong deposit growth.

Reduced onboarding times and enhanced client analytics, allowing relationship managers to spend more time with clients and offer better quality support.

Continued to help Britain prosper, facilitating over £7.9 billion of financing in the first half of 2016 to support UK government infrastructure projects, including the construction of the Beatrice Offshore Wind Farm that is expected to power more than 470,000 homes, create c.5,000 new jobs and provide significant long-term economic benefits to the UK.

Awarded Business Bank of the Year at the FD's excellence Awards for the 12th consecutive year.

Financial performance

Underlying profit up 2 per cent to £1,236 million reflecting our low risk business model and the strategy to manage clients through the cycle.

Stable income performance. Net interest income up 3 per cent, supported by high quality deposit growth and reduced funding costs leading to 33 basis points improvement in net interest margin.

Other income decrease largely driven by lower capital market volumes.

Operating costs down 2 per cent reflecting dynamic cost management through headcount rationalisation, supported by efficiency initiatives.

Operating lease charges increased due to accelerated depreciation on a small number of assets.

Impairments release of £35 million reflects active risk management with a number of write-backs and releases.

Maintained lending to customers whilst reducing risk-weighted assets, with SME growth continuing to outperform the market and increases in Mid Markets.

Continued capital optimisation, with risk-weighted assets decreasing £1.4 billion reflecting asset reductions partly offset by foreign exchange movements. Our disciplined approach to capital and credit management has been recognised through the award of Credit Portfolio Manager of the year at the 2016 Risk Awards.

Deposits increased 7 per cent with a 9 per cent increase in Global Transaction Banking balances since December 2015 and 12 per cent since June 2015. Momentum has continued in attracting high quality deposits in SME, Global Corporates and Financial Institutions, improving the balance sheet strength of the Group.

Return on risk-weighted assets of 2.42 per cent increased 11 basis points, demonstrating the continued progress in delivering sustainable returns.

COMMERCIAL BANKING (continued)

	Half-year to 30 June 2016 £m	Half-year to 30 June 20151 £m	Change %	Half-year to 31 Dec 20151 £m	Change %
Net interest income	1,306	1,266	3	1,310	–
Other income	982	1,027	(4)	1,045	(6)
Total income	2,288	2,293	–	2,355	(3)
Operating costs	(1,035)	(1,059)	2	(1,103)	6

Operating lease depreciation	(52)	(14)		(16)	
Impairment release/(charge)	35	(8)		30	17
Underlying profit	1,236	1,212	2	1,266	(2)
Banking net interest margin	3.18%	2.85%	33bp	3.10%	8bp
Average interest-earning banking assets	£88.1bn	£91.1bn	(3)	£88.9bn	(1)
Asset quality ratio	(0.06)%	0.04%	(10)bp	(0.02)%	(4)bp
Return on risk-weighted assets	2.42%	2.31%	11bp	2.43%	(1)bp
Return on assets	1.31%	1.08%	23bp	1.38%	(7)bp

Key balance sheet items	At 30 June 2016	At 31 Dec 2015[1]	Change
	£bn	£bn	%
SME	30.0	29.2	3
Other	72.0	72.8	(1)
Loans and advances to customers	102.0	102.0	
Customer deposits	141.4	131.9	7
Total customer balances	243.4	233.9	4
Risk-weighted assets	101.8	103.2	(1)

1 Restated. See basis of presentation on the inside front cover.

CONSUMER FINANCE

From 1 January 2016, Consumer Finance comprises motor finance, credit cards, unsecured personal loans and European mortgages and deposit taking. This brings together all consumer lending products to enable better and more coordinated focus on these underrepresented markets. Our aim is to deliver sustainable growth within risk appetite through building digital capability and continuing to create innovative propositions, underpinned by improvements to customer experience.

Progress against strategic initiatives

Creating the best customer experience

Black Horse recognised with several industry awards for the innovative new funding platform Sign-IT, which reduced processing time for new motor loans by 30 per cent while increasing security and customer protection, improving new customer net promoter scores by 14 per cent year-on-year.

Credit Cards delivered over 60 process improvements to the customer journey in the first six months of 2016 and a 30 per cent reduction in complaints compared to the same period two years ago with net promoter scores more than doubling.

Within Loans, the Flexible and Clarity Loan products were awarded 5 stars by Defaqto for quality and customer satisfaction for the fourth and fifth consecutive years respectively.

6,000 Lex Autolease customers now using new online vehicle servicing tool allowing choice of service provider and reviews of customer feedback.

Becoming simpler and more efficient

Reduced the variants of terms and conditions by c.90 per cent for 8 million credit card customers.

Lex Autolease have simplified their end of contract remarketing operation allowing a reduction in the number of operating sites and employees.

Black Horse reduced the processing time for onboarding new dealers from 22 days to 6 days.

Delivering sustainable growth

Black Horse delivered increased market share with lending balance growth of 30 per cent year-on-year to over £10 billion through continued focus on lower risk new business.

Lex Autolease fleet growth of over 25,000 units or 8 per cent year-on-year.

4 per cent growth in Consumer Credit Cards balances driven by an 8 per cent increase in retail spend and balance on new accounts up 5 per cent. There has been a 9 per cent increase in spend in Commercial Cards.

4 per cent year-on-year reduction in loans balances although new lending has increased 9 per cent, including a 41 per cent increase through the digital channel reflecting changing customer behaviour and investment in digital capability. The digital channel now accounts for 62 per cent of all new loans written.

Financial performance

Underlying profit of £690 million was down 9 per cent driven by lower debt sale benefits year-on-year.

Net interest income down 1 per cent to £994 million with net interest margin down 69 basis points to 6.27 per cent. Strong volume driven growth in high quality new business in Black Horse was partially offset by repayment of historic higher margin business. Cards benefited from a one-off credit in the first quarter but continued negative Euribor trends and a lower year-on-year balance in Loans led to an overall decline in margin.

Other operating income down 3 per cent to £658 million due to market-wide reduction in credit card interchange fees, more than offsetting the benefit of continued Lex Autolease fleet growth.

Operating costs down 8 per cent to £466 million with continued investment more than offset by efficiency savings.

Impairment charge up 88 per cent to £128 million, but broadly flat year-on-year excluding debt sale benefits. Flat underlying impairment charge despite book growth reflects the sustained credit quality of new business and close management of risk appetite.

UK Customer Assets increased 11 per cent year-on-year and 5 per cent since December 2015 driven by growth in Black Horse and Lex Autolease, with £4.8 billion of the three year £6 billion growth target delivered.

Customer deposits reduced by 20 per cent year-on-year and 18 per cent since December 2015 to £9.1 billion driven by re-pricing activity in response to continued weak Euribor rates and the Group’s balance sheet funding strategy.

Return on risk-weighted assets decreased 20 basis points year-on-year to 4.47 per cent broadly consistent with profit trends

CONSUMER FINANCE (continued)

	Half-year to 30 June 2016	Half-year to 30 June 2015[1]	Change	Half-year to 31 Dec 2015[1]	Change
	£m	£m	%	£m	%
Net interest income	994	1,005	(1)	949	5
Other income	658	678	(3)	681	(3)
Total income	1,652	1,683	(2)	1,630	1
Operating costs	(466)	(506)	8	(471)	1
Operating lease depreciation	(368)	(353)	(4)	(367)	–
Impairment	(128)	(68)	(88)	(167)	23
Underlying profit	690	756	(9)	625	10
Banking net interest margin	6.27%	6.96%	(69)bp	6.29%	(2)bp
Average interest-earning banking assets	£32.9bn	£29.9bn	10	£31.1bn	6
Asset quality ratio	0.79%	0.47%	32bp	1.06%	(27)bp
Impaired loans as a % of closing advances	2.3%	3.4%	(1.1)pp	2.9%	(0.6)pp
Return on risk-weighted assets	4.47%	4.67%	(20)bp	3.87%	60bp
Return on assets	3.66%	4.46%	(80)bp	3.49%	17bp

Key balance sheet items	At 30 June 2016	At 31 Dec 2015[1]	Change
	£bn	£bn	%
Loans and advances to customers	33.7	31.5	7
Of which UK	27.9	26.6	5
Operating lease assets	3.7	3.5	6
Total customer assets	37.4	35.0	7
Of which UK	31.6	30.0	5
Customer deposits	9.1	11.1	(18)
Total customer balances	46.5	46.1	1
Risk-weighted assets	31.1	30.7	1

1 Restated. See basis of presentation on the inside front cover.

INSURANCE

The Insurance division is committed to providing a range of trusted and value for money protection, pension and investment products to meet the needs of our customers. Scottish Widows is helping almost six million customers protect what they value most and plan financially for the future. In addition, the general insurance business is protecting the homes, belongings, cars and businesses of over three million customers.

Progress against strategic initiatives

Continued to support corporate customers in de-risking their balance sheets, with the successful completion of a further three bulk annuity transactions. This takes the combined external deal size to over £1.25 billion since our entry into this market at the end of 2015.

Continued to leverage Group capabilities to source attractive, low risk, higher yielding assets to back our annuity liabilities. Total assets acquired to date are £6 billion.

Introduced an online transfer tool which enables customers to consolidate their workplace pension assets. This, together with the support already provided through the Scottish Widows ‘5 Steps to Retirement’ website, now enables all pensions customers to make informed choices and to take control of their retirement plans.

Provided more than £500 million of life assurance and critical illness cover to individuals and businesses across the UK through ‘Scottish Widows Protect’ which was launched into the intermediary channel at the end of 2015.

Helped more than 14,000 customers who were impacted by the storms and floods in the first half of 2016.

Strengthened our general insurance position with the launch in June of a flexible online home insurance offering which allows customers to tailor policies to their individual needs.

Supported development of the UK Government’s Flood Re scheme, launched in April 2016, which enables customers in high flood risk areas to secure affordable home insurance.

Responding to the recent FCA thematic review and recognising the Group’s significant base of longstanding Life, Pensions and Investment (LP&I) customers, a dedicated business unit has been created to support this customer group.

Financial performance

Underlying profit decreased by 24 per cent, to £446 million, with increased new business income, driven by the bulk transactions, more than offset by adverse economics and weather related claims. The 18 per cent increase relative to the second half of 2015 primarily reflects bulk annuity activity.

Costs increased by 7 per cent to £395 million, reflecting significant investment spend and a £29 million levy associated with the Flood Re scheme.

Life and pensions sales (PVNBP) increased by 32 per cent reflecting three bulk annuity deals secured in the first half, increased momentum on both Planning and Retirement and Protection and a stable performance from Corporate Pensions. Including the internal With-Profits fund bulk annuity transaction which boosted 2015, PVNBP decreased by 18 per cent.

General Insurance Gross Written Premiums (GWP) decreased by 1 per cent, reflecting the competitive Home market and the run off of legacy products which has been partly offset by continued growth in Motor.

Capital

The estimated Solvency II ratio of 144 per cent (1 January 2016 post dividend position: 151 per cent) represents the shareholder view of Solvency II surplus, and is aligned to the way in which capital is managed within the Insurance division. The reduction in the ratio primarily reflects adverse market volatility following the EU referendum and the capital invested in our successful external bulk annuity business.

INSURANCE (continued)

Performance summary

	Half-year to 30 June 2016	Half-year to 30 June 2015	Change	Half-year to 31 Dec 2015	Change
	£m	£m	%	£m	%
Net interest income	(80)	(73)	(10)	(90)	11
Other income	921	1,025	(10)	802	15
Total income	841	952	(12)	712	18
Operating costs	(395)	(368)	(7)	(334)	(18)
Underlying profit	446	584	(24)	378	18