Lloyds Bank plc

2018 Half-Year Results

Member of the Lloyds Banking Group

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 or Lloyds Banking Group plc'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 or Lloyds Banking Group plc'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 or Lloyds Banking Group plc'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 by Lloyds Banking Group plc 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.

CONTENTS

	Page
Financial review	1
Principal risks and uncertainties	5
Condensed consolidated half-year financial statements (unaudited)	
Consolidated income statement	6
Consolidated statement of comprehensive income	7
Consolidated balance sheet	8
Consolidated statement of changes in equity	10
Consolidated cash flow statement	14
Notes	16
Statement of directors' responsibilities	55
Independent review report	56
Contacts	58

FINANCIAL REVIEW

As a result of the requirements of the ring-fencing regulations, the Bank sold its subsidiary, Scottish Widows Group Limited, to its ultimate holding company during May 2018. This is only an internal reorganisation within the Lloyds Banking Group, but due to the significance of the Scottish Widows entities they have been classified as discontinued operations for the purposes of the Bank's consolidated statutory reporting.

In addition, also in May 2018, the Bank and its subsidiary, Bank of Scotland plc, sold the element of their commercial banking businesses required to be transferred in order to ensure compliance with the Ring-fencing legislation to Lloyds Bank Corporate Markets plc, a fellow Lloyds Banking Group undertaking.

Continuing operations

During the half-year to 30 June 2018, the Group recorded a profit before tax from its continuing operations of £2,354 million compared with a profit before tax in the half-year to 30 June 2017 of £2,579 million.

Total income decreased by £217 million, or 2 per cent, to £8,513 million in the half-year to 30 June 2018 compared with £8,730 million in the half-year to 30 June 2017; a £450 million increase in net interest income was more than offset by a decrease of £667 million in other income.

Net interest income was £6,391 million in the half-year to 30 June 2018, an increase of £450 million, or 8 per cent compared to £5,941 million in the half-year to 30 June 2017 as a result of margin improvements due to the benefit from the acquisition of MBNA and lower deposit and wholesale funding costs, more than offsetting continued asset pricing pressure.

Other income was £667 million lower at £2,122 million in the half-year to 30 June 2018 compared to £2,789 million in the half-year to 30 June 2017. Net fee and commission income was £189 million lower at £752 million in the half-year to 30 June 2018 compared to £941 million in the half-year to 30 June 2017, in part due to a lower level of current account fees as a result of changes to overdraft charging announced in July 2017, which took effect in November. Net trading income was £431 million lower at £184 million in the half-year to 30 June 2018 compared to £615 million in the half-year to 30 June 2017. Other operating income was £47 million lower at £1,186 million in the half-year to 30 June 2018 compared to £1,233 million in the half-year to 30 June 2017, with 2018 including a loss of £105 million on the sale of the Group's Irish residential mortgage portfolio.

Operating expenses decreased by £219 million to £5,729 million in the half-year to 30 June 2018 compared with £5,948 million in the half-year to 30 June 2017. There was a £433 million reduction in regulatory provisions partly offset by a £214 million increase in other operating expenses. The charge in respect of regulatory provisions was £778 million compared to £1,211 million in the half-year to 30 June 2017 and comprised a charge of £550 million in respect of payment protection insurance and £228 million in respect of other conduct issues. Other operating expenses were £214 million higher at £4,951 million in the half-year to 30 June 2018 compared to £4,737 million in the half-year to 30 June 2017 reflecting costs of £75 million in MBNA and an increased level of staff, restructuring and other costs.

Credit quality across the portfolio remains strong. Impairment losses increased by £227 million to £430 million in the half-year to 30 June 2018 compared with £203 million in the half-year to 30 June 2017, reflecting the expected lower releases and write-backs and the acquisition of MBNA. In the current benign economic environment, the implementation of IFRS 9 has not had a significant effect on the Group's impairment charge.

Discontinued operations

The Group sold the Scottish Widows Group to its ultimate holding company, Lloyds Banking Group plc, at the beginning of May 2018 and so the results of discontinued operations reflect four months of trading compared to a full six months in the half-year to 30 June 2017; a trading surplus of £370 million compared to £389 million for the half-year to 30 June 2017. The Group realised a profit of £1,010 million on the sale of Scottish Widows Group, which is reported as part of discontinued operations.

FINANCIAL REVIEW (continued)

Balance sheet and capital

Total assets were £130,811 million lower at £692,219 million at 30 June 2018 compared to £823,030 million at 31 December 2017, principally due to the sale of the Group's insurance activities. Loans and advances to customers were reduced following reclassifications on adoption of IFRS 9 but this has been partly offset by continued growth in targeted segments such as SME and motor finance, while the open mortgage book was broadly unchanged over the period. Financial assets held at fair value through other comprehensive income have reduced following sales of some of the Group's gilt holdings.

In May 2018, Standard & Poor's upgraded Lloyds Bank plc's long-term rating by one notch to 'A+'

Total equity has decreased by £10,550 million from £51,194 million at 31 December 2017 to £40,644 million at 30 June 2018, principally due to dividends paid of £10,422 million and a capital repayment of £1,800 million as the Group restructures its capital following the sale of businesses as part of the Lloyds Banking Group's programme for compliance with the Ring-fencing legislation.

The Group's common equity tier 1 capital ratio reduced to 15.1 per cent (31 December 2017: 15.8 per cent), predominantly reflecting the net impact of ring-fencing related restructuring activities on capital resources and risk-weighted assets during the period, including the transfer of the Group's holding in its Insurance business (Scottish Widows Group) to its ultimate parent company Lloyds Banking Group plc and the transfer of assets and liabilities of non ring-fenced portfolios to Lloyds Bank Corporate Markets plc. The restructuring activities resulted in the payment of a £7,622 million dividend to Lloyds Banking Group plc, a substantial reduction in the deduction for significant investments and the removal of the deconsolidation adjustments previously applied to shareholders' equity. The impact of the ring-fencing related restructuring activities was partially offset by profits generated during the period, the receipt of dividends paid by the Insurance business in February 2018, a reduction in the deferred tax asset deduction and a substantial reduction in excess expected losses resulting from the partial absorption of the increase in impairment provisions following the adoption of IFRS 9 on 1 January 2018, which were in turn offset by the accrual for foreseeable dividends in respect of the first half of 2018, the impact on retained earnings following the adoption of IFRS 9 on 1 January 2018 (net of transitional relief), movements through the FVOCI reserve and an increase in intangible assets which are deducted from capital.

The tier 1 capital ratio reduced to 17.9 per cent (31 December 2017: 18.3 per cent) primarily reflecting the reduction in common equity tier 1 and the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments, partially offset by the reduction in risk-weighted assets. The total capital ratio increased to 22.0 per cent (31 December 2017: 21.5 per cent), largely reflecting the reduction in risk-weighted assets and the deduction for significant investments, partially offset by the reduction in common equity tier 1 capital.

Risk-weighted assets reduced by £18,981 million, or 9 per cent, to £187,047 million at 30 June 2018, compared to £206,028 million at 31 December 2017, largely reflecting the impact of the ring-fencing related restructuring activities.

Capital position at 30 June 2018

The Group's capital position as at 30 June 2018, applying CRD IV transitional rules and IFRS 9 transitional arrangements, is set out in the following section.

FINANCIAL REVIEW (continued)

Capital ratios

Capital resources (transitional)	At 30 June 2018 £m	At 31 Dec 2017 £m
Common equity tier 1		
Shareholders' equity per balance sheet	**37,335**	47,598
Adjustment to retained earnings for foreseeable dividends	**(600)**	(2,475)
Deconsolidation adjustments[1]	**–**	738
Adjustment for own credit	**(13)**	109
Cash flow hedging reserve	**(1,058)**	(1,573)
Other adjustments	**469**	(28)
	36,133	44,369
Less: deductions from common equity tier 1		
Goodwill and other intangible assets	**(3,331)**	(2,952)
Prudent valuation adjustment	**(202)**	(454)
Excess of expected losses over impairment provisions and value adjustments	**(8)**	(477)
Removal of defined benefit pension surplus	**(1,318)**	(541)
Securitisation deductions	**(1)**	(191)
Significant investments[1]	**–**	(3,990)
Deferred tax assets	**(3,060)**	(3,264)
Common equity tier 1 capital	**28,213**	32,500
Additional tier 1		
Additional tier 1 instruments	**5,937**	6,593
Less: deductions from tier 1		
Significant investments[1]	**(638)**	(1,373)
Total tier 1 capital	**33,512**	37,720
Tier 2		
Tier 2 instruments	**7,693**	7,700
Eligible provisions	**–**	120
Less: deductions from tier 2		
Significant investments[1]	**–**	(1,241)
Total tier 2 capital	**7,693**	6,579
Total capital resources	**41,205**	44,299
Risk-weighted assets	**187,047**	206,028
Common equity tier 1 capital ratio[2]	**15.1%**	15.8%
Tier 1 capital ratio[2]	**17.9%**	18.3%
Total capital ratio[2]	**22.0%**	21.5%

[1] Prior to the transfer of the Group's Insurance business during the period to Lloyds Banking Group plc (the ultimate parent company), the Group's Insurance business was deconsolidated for regulatory capital purposes and replaced by the amount of the Group's investment in the business. A part of this amount was deducted from capital (shown as 'significant investments' in the table above) and the remaining amount was risk-weighted, forming part of threshold risk-weighted assets.

[2] Reflecting the full impact of IFRS 9 at 30 June 2018, without the application of transitional arrangements, the Group's common equity tier 1 capital ratio would be 14.8%, the tier 1 capital ratio would be 17.6% and the total capital ratio would be 22.0%.

FINANCIAL REVIEW (continued)

	At 30 June 2018 £m	At 31 Dec 2017 £m
Risk-weighted assets		
Foundation Internal Ratings Based (IRB) Approach	**58,045**	60,207
Retail IRB Approach	**58,868**	61,588
Other IRB Approach	**11,073**	12,359
IRB Approach	**127,986**	134,154
Standardised Approach	**29,064**	25,283
Credit risk	**157,050**	159,437
Counterparty credit risk	**2,786**	6,055
Contributions to the default fund of a central counterparty	**459**	428
Credit valuation adjustment risk	**569**	1,402
Operational risk	**23,402**	24,880
Market risk	**1,260**	3,051
Underlying risk-weighted assets	**185,526**	195,253
Threshold risk-weighted assets	**1,521**	10,775
Total risk-weighted assets	**187,047**	206,028

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

Capital risk – The risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Group.

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

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

Market risk – The risk that the Group's capital or earnings profile is affected by adverse market rates, in particular interest rates and credit spreads in the banking business, and credit spreads in the Group's defined benefit pension schemes.

Model risk – The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of financial models and rating systems.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED INCOME STATEMENT

	Note	**Half-year to 30 June 2018 £m**	Half-year to 30 June 2017 £m
Interest and similar income		**8,045**	7,778
Interest and similar expense		**(1,654)**	(1,837)
Net interest income		**6,391**	5,941
Fee and commission income		**1,290**	1,428
Fee and commission expense		**(538)**	(487)
Net fee and commission income	3	**752**	941
Net trading income		**184**	615
Other operating income		**1,186**	1,233
Other income		**2,122**	2,789
Total income		**8,513**	8,730
Regulatory provisions		**(778)**	(1,211)
Other operating expenses		**(4,951)**	(4,737)
Total operating expenses	4	**(5,729)**	(5,948)
Trading surplus		**2,784**	2,782
Impairment	5	**(430)**	(203)
Profit before tax – continuing operations		**2,354**	2,579
Tax expense	6	**(704)**	(858)
Profit after tax – continuing operations		**1,650**	1,721
Profit after tax – discontinued operations	10	**1,314**	331
Profit for the period		**2,964**	2,052
Profit attributable to ordinary shareholders		**2,806**	1,864
Profit attributable to other equity shareholders[1]		**135**	137
Profit attributable to equity holders		**2,941**	2,001
Profit attributable to non-controlling interests		**23**	51
Profit for the period		**2,964**	2,052

[1] The profit after tax attributable to other equity holders of £135 million (half-year to 30 June 2017: £137 million) is offset in reserves by a tax credit attributable to ordinary shareholders of £36 million (half-year to 30 June 2017: £37 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m
Profit for the period	**2,964**	2,052
Other comprehensive income:		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before tax	**908**	(124)
Tax	**(206)**	32
	702	(92)
Movements in revaluation reserve in respect of equity shares held at fair value through other comprehensive income:		
Change in fair value	**(97)**	
Tax	**22**	
	(75)	
Gains and losses attributable to own credit risk:		
Gains and (losses) before tax	**167**	(44)
Tax	**(45)**	12
	122	(32)
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:		
Change in fair value	**109**	
Income statement transfers in respect of disposals	**(206)**	
Impairment	**1**	
Tax	**46**	
	(50)	
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Change in fair value		455
Income statement transfers in respect of disposals		(315)
Income statement transfers in respect of impairment		6
Tax		(48)
		98
Movement in cash flow hedging reserve:		
Effective portion of changes in fair value	**(286)**	(212)
Net income statement transfers	**(423)**	(313)
Tax	**194**	140
	(515)	(385)
Currency translation differences (tax: nil)	**(2)**	(7)
Other comprehensive income for the period, net of tax	**182**	(418)
Total comprehensive income for the period	**3,146**	1,634
Total comprehensive income attributable to ordinary shareholders arising from continuing operations	**1,644**	1,103
Total comprehensive income attributable to ordinary shareholders arising from discontinued operations	**1,344**	343
Total comprehensive income attributable to ordinary shareholders	**2,988**	1,446
Total comprehensive income attributable to other equity holders	**135**	137
Total comprehensive income attributable to equity holders	**3,123**	1,583
Total comprehensive income attributable to non-controlling interests	**23**	51
Total comprehensive income for the period	**3,146**	1,634

CONSOLIDATED BALANCE SHEET

	Note	**At 30 June 2018 £m**	At 31 Dec 2017 £m
Assets			
Cash and balances at central banks		**50,091**	58,521
Items in course of collection from banks		**702**	755
Financial assets at fair value through profit or loss	7	**37,146**	45,608
Derivative financial instruments		**20,802**	24,152
Loans and advances to banks		**5,073**	4,274
Loans and advances to customers	8	**454,080**	465,555
Debt securities		**4,274**	3,637
Due from fellow Lloyds Banking Group undertakings		**27,485**	6,195
Financial assets at amortised cost		**490,912**	479,661
Financial assets at fair value through other comprehensive income		**31,300**	
Available-for-sale financial assets			41,717
Goodwill		**474**	474
Other intangible assets		**3,033**	2,666
Property, plant and equipment		**8,889**	9,062
Current tax recoverable		**2**	16
Deferred tax assets		**3,238**	3,104
Retirement benefit assets	12	**1,584**	723
Assets of discontinued operations	10a	**–**	154,227
Assets of held-for-sale disposal group	10b	**33,634**	–
Other assets		**10,412**	2,344
Total assets		**692,219**	823,030

CONSOLIDATED BALANCE SHEET (continued)

	Note	**At 30 June 2018 £m**	At 31 Dec 2017 £m
Equity and liabilities			
Liabilities			
Deposits from banks		**27,822**	28,888
Customer deposits		**401,558**	418,124
Due to fellow Lloyds Banking Group undertakings		**35,965**	13,237
Items in course of transmission to banks		**846**	579
Financial liabilities at fair value through profit or loss		**39,645**	50,874
Derivative financial instruments		**18,971**	24,699
Notes in circulation		**1,140**	1,313
Debt securities in issue	11	**69,971**	61,865
Liabilities of discontinued operations	10a	**–**	146,518
Liabilities of held-for-sale disposal group	10b	**32,770**	–
Other liabilities		**4,864**	4,540
Retirement benefit obligations	12	**265**	281
Current tax liabilities		**192**	827
Other provisions		**4,415**	5,309
Subordinated liabilities		**13,151**	14,782
Total liabilities		**651,575**	771,836
Equity			
Share capital		**1,574**	1,574
Share premium account		**600**	600
Other reserves		**6,969**	7,706
Retained profits		**28,192**	37,718
Shareholders' equity		**37,335**	47,598
Other equity instruments		**3,217**	3,217
Total equity excluding non-controlling interests		**40,552**	50,815
Non-controlling interests		**92**	379
Total equity		**40,644**	51,194
Total equity and liabilities		**692,219**	823,030

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
Balance at 31 December 2017	2,174	7,706	37,718	47,598	3,217	379	51,194
Adjustment for IFRS 9 and IFRS 15 (note 18)	–	(236)	(955)	(1,191)	–	–	(1,191)
Balance at 1 January 2018	2,174	7,470	36,763	46,407	3,217	379	50,003
Comprehensive income							
Profit for the period	–	–	2,941	2,941	–	23	2,964
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	702	702	–	–	702
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	–	(50)	–	(50)	–	–	(50)
Equity shares	–	(75)	–	(75)	–	–	(75)
Gains and losses attributable to own credit risk, net of tax	–	–	122	122	–	–	122
Movements in cash flow hedging reserve, net of tax	–	(515)	–	(515)	–	–	(515)
Currency translation differences (tax: nil)	–	(2)	–	(2)	–	–	(2)
Total other comprehensive income	–	(642)	824	182	–	–	182
Total comprehensive income	–	(642)	3,765	3,123	–	23	3,146
Transactions with owners							
Dividends	–	–	(10,422)	(10,422)	–	(5)	(10,427)
Distributions on other equity instruments, net of tax	–	–	(99)	(99)	–	–	(99)
Capital repayment to parent	–	–	(1,800)	(1,800)	–	–	(1,800)
Capital contributions received	–	–	126	126	–	–	126
Changes in non-controlling interests	–	–	–	–	–	(305)	(305)
Total transactions with owners	–	–	(12,195)	(12,195)	–	(310)	(12,505)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	141	(141)	–	–	–	–
Balance at 30 June 2018	2,174	6,969	28,192	37,335	3,217	92	40,644

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
Balance at 1 January 2017	1,574	8,484	36,231	46,289	3,217	745	50,251
Comprehensive income							
Profit for the period	–	–	2,001	2,001	–	51	2,052
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(92)	(92)	–	–	(92)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	98	–	98	–	–	98
Gains and losses attributable to own credit risk, net of tax	–	–	(32)	(32)	–	–	(32)
Movements in cash flow hedging reserve, net of tax	–	(385)	–	(385)	–	–	(385)
Currency translation differences (tax: nil)	–	(7)	–	(7)	–	–	(7)
Total other comprehensive income	–	(294)	(124)	(418)	–	–	(418)
Total comprehensive income	–	(294)	1,877	1,583	–	51	1,634
Transactions with owners							
Dividends	–	–	(1,600)	(1,600)	–	(10)	(1,610)
Distributions on other equity instruments, net of tax	–	–	(100)	(100)	–	–	(100)
Redemption of preference shares	600	–	(600)	–	–	–	–
Capital contributions received	–	–	219	219	–	–	219
Return of capital contributions	–	–	(74)	(74)	–	–	(74)
Changes in non-controlling interests	–	–	–	–	–	(3)	(3)
Total transactions with owners	600	–	(2,155)	(1,555)	–	(13)	(1,568)
Balance at 30 June 2017	2,174	8,190	35,953	46,317	3,217	783	50,317

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
Balance at 1 July 2017	2,174	8,190	35,953	46,317	3,217	783	50,317
Comprehensive income							
Profit for the period	–	–	2,138	2,138	–	39	2,177
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	574	574	–	–	574
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(198)	–	(198)	–	–	(198)
Gains and losses attributable to own credit risk, net of tax	–	–	(8)	(8)	–	–	(8)
Movements in cash flow hedging reserve, net of tax	–	(266)	–	(266)	–	–	(266)
Currency translation differences, net of tax	–	(20)	–	(20)	–	–	(20)
Total other comprehensive income	–	(484)	566	82	–	–	82
Total comprehensive income	–	(484)	2,704	2,220	–	39	2,259
Transactions with owners							
Dividends	–	–	(1,050)	(1,050)	–	(59)	(1,109)
Distributions on other equity instruments	–	–	(99)	(99)	–	–	(99)
Capital contribution received	–	–	213	213	–	–	213
Return of capital contributions	–	–	(3)	(3)	–	–	(3)
Changes in non-controlling interests	–	–	–	–	–	(384)	(384)
Total transactions with owners	–	–	(939)	(939)	–	(443)	(1,382)
Balance as at 31 December 2017	2,174	7,706	37,718	47,598	3,217	379	51,194

CONSOLIDATED CASH FLOW STATEMENT

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m
Profit before tax	**3,734**	2,968
Adjustments for:		
Change in operating assets	**(6,945)**	(16,790)
Change in operating liabilities	**2,969**	(3,421)
Non-cash and other items	**(1,946)**	8,559
Tax paid	**(1,173)**	(38)
Net cash provided by (used in) operating activities	**(3,361)**	(8,722)
Cash flows from investing activities		
Purchase of financial assets	**(6,050)**	(1,847)
Proceeds from sale and maturity of financial assets	**14,856**	5,276
Purchase of fixed assets	**(1,733)**	(1,960)
Proceeds from sale of fixed assets	**542**	763
Acquisition of businesses, net of cash acquired	**(26)**	(1,909)
Disposal of businesses, net of cash disposed	**7,622**	26
Net cash provided by investing activities	**15,211**	349
Cash flows from financing activities		
Dividends paid to ordinary shareholders	**(10,422)**	(1,600)
Distributions on other equity instruments	**(135)**	(137)
Dividends paid to non-controlling interests	**(5)**	(10)
Return of capital contribution	**–**	(74)
Interest paid on subordinated liabilities	**(625)**	(655)
Proceeds from issue of subordinated liabilities	**201**	–
Repayment of subordinated liabilities	**(1,612)**	(1,236)
Capital repayment to parent company	**(1,800)**	–
Borrowings from parent company	**9,430**	4,149
Repayments to parent company	**(3,817)**	–
Interest paid on borrowing from parent company	**(322)**	(111)
Change in non-controlling interests	**–**	(3)
Net cash used in financing activities	**(9,107)**	323
Effects of exchange rate changes on cash and cash equivalents	**1**	–
Change in cash and cash equivalents	**2,744**	(8,050)
Cash and cash equivalents at beginning of period	**60,982**	62,908
Cash and cash equivalents at end of period	**63,726**	54,858

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

CONSOLIDATED CASH FLOW STATEMENT (continued)

Discontinued operations

The impact of the Group's discontinued operations on the above cash flow statement is as follows:

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m
Net cash provided by operating activities	**(11,529)**	(11,466)
Net cash from investing activities	**60**	224
Net cash used in financing activities	**(682)**	(655)
Change in cash and cash equivalents	**(12,151)**	(11,897)

NOTES

		Page
1	Accounting policies, presentation and estimates	17
2	Segmental analysis	24
3	Net fee and commission income	25
4	Operating expenses	26
5	Impairment	26
6	Taxation	27
7	Financial assets at fair value through profit or loss	27
8	Loans and advances to customers	28
9	Allowance for impairment losses	29
10	Disposal groups and discontinued operations	30
11	Debt securities in issue	33
12	Post-retirement defined benefit schemes	34
13	Provisions for liabilities and charges	35
14	Contingent liabilities and commitments	36
15	Fair values of financial assets and liabilities	40
16	Related party transactions	49
17	Dividends on ordinary shares	49
18	Implementation of IFRS 9 and IFRS 15	50
19	Future accounting developments	54
20	Ultimate parent undertaking	54
21	Other information	54

1. Accounting policies, presentation and estimates

These condensed consolidated half-year financial statements as at and for the period to 30 June 2018 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), *Interim Financial Reporting* as adopted by the European Union and comprise the results of Lloyds Bank plc (the Bank) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2017 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Copies of the 2017 Annual Report and Accounts are available on the Lloyds Banking Group's website and are available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position.

Except as noted below, the accounting policies are consistent with those applied by the Group in its 2017 Annual Report and Accounts.

Changes in accounting policy

The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018.

(i) IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 and addresses classification, measurement and derecognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income and general hedge accounting.

Impairment: IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach applies to financial assets including finance lease receivables, recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

Classification and measurement: IFRS 9 requires financial assets to be classified into one of the following measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost. Classification is made on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The Group early adopted this requirement with effect from 1 January 2017.

1. Accounting policies, presentation and estimates (continued)

General hedge accounting: The new hedge accounting model aims to provide a better link between risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. The standard does not explicitly address macro hedge accounting solutions, which are being considered in a separate IASB project – Accounting for Dynamic Risk Management. Until this project is finalised, the IASB has provided an accounting policy choice to retain IAS 39 hedge accounting in its entirety or choose to apply the IFRS 9 hedge accounting requirements. The Group has elected to continue applying hedge accounting as set out in IAS 39.

(ii) IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 has replaced IAS 18 *Revenue* and IAS 11 *Construction Contracts.* The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. The recognition of such revenue is in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied.

Details of the impact of adoption of IFRS 9 and IFRS 15 are provided in note 18.

The following policies will substantially replace the relevant sections of the existing policies (D), (E) and (H) in the 2018 Annual Report and Accounts as they relate to revenue recognition, classification and measurement and impairment. Policies that are substantially unchanged such as accounting for borrowings, sales and repurchase agreements, recognition and derecognition and hedge accounting are not repeated.

(D) Revenue recognition
Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability, including early redemption fees, and related penalties, and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account. Interest income from non-credit impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses. Impairment policies are set out in (H) below.

Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as the services are provided. Current account and card fees are accrued evenly over the course of the year. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn. Where it is unlikely that loan commitments will be drawn, loan commitment fees are recognised over the life of the facility. Incremental costs incurred to generate fee and commission income are charged to fees and commissions expense as they are incurred.

Dividend income is recognised when the right to receive payment is established.

1. Accounting policies, presentation and estimates (continued)

(E) Financial assets and liabilities

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

Equity investments are measured at fair value through profit or loss unless the Group elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

(1) Financial assets measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Financial assets measured at amortised cost are predominantly loans and advances to customers and banks together with certain debt securities. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method (see (D) above).

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

(2) Financial assets measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement other than in respect of equity shares, for which the cumulative revaluation amount is transferred directly to profit and loss reserves. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. In addition, the Group recognises a charge for expected credit losses in the income statement (see (H) below). As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income.

1. Accounting policies, presentation and estimates (continued)

(3) Financial instruments measured at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. Derivatives are carried at fair value.

The assets backing the insurance and investment contracts issued by the Group do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income as they are managed on a fair value basis and accordingly are measured at fair value through profit or loss. Similarly, trading securities, which are debt securities and equity shares acquired principally for the purpose of selling in the short term or which are part of a portfolio which is managed for short-term gains, do not meet these criteria and are also measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within net trading income in the period in which they occur.

Financial liabilities are measured at fair value through profit or loss where they are trading liabilities or where they are designated at fair value through profit or loss in order to reduce an accounting mismatch; where the liabilities are part of a group of liabilities (or assets and liabilities) which is managed, and its performance evaluated, on a fair value basis; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in the income statement within net trading income in the period in which they occur, except that gains and losses attributable to changes in own credit risk are recognised in other comprehensive income.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques. The fair values of derivative financial instruments are adjusted where appropriate to reflect credit risk (via credit valuation adjustments (CVAs), debit valuation adjustments (DVAs) and funding valuation adjustments (FVAs)), market liquidity and other risks.

1. Accounting policies, presentation and estimates (continued)

(H) Impairment of financial assets

The impairment charge in the income statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts.

Expected credit losses are calculated by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Group at the point of default after taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Group uses a quantitative test based on relative and absolute PD movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Group uses this 90 day backstop for all its products except for UK mortgages. For UK mortgages, the Group has assumed a backstop of 180 days past due as mortgage exposures more than 90 days past due, but less than 180 days, typically show high cure rates and this aligns to the Group's risk management practices.

In certain circumstances, the Group will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows. Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. For both secured and unsecured retail balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate. For commercial lending, a write-off occurs if the loan facility with the customer is restructured, the asset is under administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third party valuations) is available that there has been an irreversible decline in expected cash flows.

1. Accounting policies, presentation and estimates (continued)

Future accounting developments

Details of those IFRS pronouncements which will be relevant to the Group but which will not be effective at 31 December 2018 and which have not been applied in preparing these condensed consolidated half-year financial statements are set out in note 19.

Critical accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Other than in relation to the implementation of IFRS 9, there have been no significant changes in the basis upon which estimates have been determined, compared to that applied at 31 December 2017.

The calculation of the Group's expected credit loss (ECL) allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Definition of default

The probability of default (PD) of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

The definition of default adopted by the Group is described in (H) Impairment of financial assets above. This definition is aligned to the regulatory definition of default used by the Group for capital and regulatory reporting except that the Group has made the decision to treat forborne non-performing past term interest only mortgages as credit impaired.

As noted in (H) Impairment of financial assets, the Group has rebutted the presumption in IFRS 9 that default occurs no later than when a payment is 90 days past due. The impact on the Group's ECL allowance of assuming a backstop of 180 days past due for UK mortgages is not material.

Lifetime of an exposure

To derive the PDs necessary to calculate the ECL allowance it is necessary to estimate the expected life of each financial instrument. A range of approaches has been adopted across different product groupings including the full contractual life and taking into account behavioural factors such as early repayments and refinancing. For Retail assets, the Group has defined the lifetime for each product by analysing the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off. For revolving products, the Group has considered the losses beyond the contractual term over which the Group is exposed to credit risk. For Commercial overdraft facilities, the average behavioural life has been used. Changes to the assumed expected lives of the Commercial assets could have a material effect on the ECL allowance recognised by the Group.

1. Accounting policies, presentation and estimates (continued)

Significant increase in credit risk (SICR)
Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been an SICR since initial recognition. As described in (H) Impairment of financial assets above, the Group uses a quantitative test together with qualitative indicators and a backstop of 30 days past due for determining whether there has been a SICR. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

For Retail, a deterioration of four grades for credit cards, personal loans or overdrafts, or three grades for personal mortgages, or two grades for asset finance accounts, would trigger a transfer to Stage 2. For Commercial a doubling of PD with a minimum increase in PD of 1 per cent and a resulting change in the underlying grade would trigger a transfer.

Forward looking information
The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes.

In order to do this the Group uses a model to project a number of key variables to generate in excess of 2,000 possible future economic scenarios. These are ranked according to severity of loss and four scenarios are selected to represent the full loss distribution; a central scenario which reflects the assumptions used for medium-term planning purposes, an upside and a downside scenario and a severe downside scenario. Each scenario receives a 30 per cent weighting except for the severe downside scenario which is weighted at 10 per cent. These scenarios are used to produce a weighted average PD for each product grouping which is used to determine stage allocation and calculate the related ECL allowance.

The choice of alternative scenarios and probability weighting is a combination of quantitative analysis and judgemental assessments, designed to ensure that the full range of possible outcomes and material non-linearity are captured. The key UK economic assumptions made by the Lloyds Banking Group as at 30 June 2018 are shown below:

	Base Case	**Upside**	**Downside**	**Severe Downside**
	%	**%**	**%**	**%**
Interest rate	**1.43**	**2.29**	**0.90**	**0.65**
Unemployment rate	**4.8**	**4.0**	**5.7**	**7.1**
House price growth	**2.7**	**6.5**	**(2.9)**	**(5.6)**
CRE price growth	**0.5**	**9.0**	**(5.3)**	**(8.1)**

2. Segmental analysis

The Group provides a wide range of banking and financial services in the UK and in certain locations overseas. The Group Executive Committee (GEC) of the Lloyds Banking Group has been determined to be the chief operating decision maker for the Group. Following the transfer of HBOS to the Group on 1 January 2010, all of the trading activities of the Lloyds Banking Group are carried out within the Group and, as a result, the chief operating decision maker reviewed the Group's performance by considering that of the Lloyds Banking Group. However, following the sale of the Group's insurance business and certain other businesses as a result of the ring-fencing legislation this is no longer the case. Accordingly, the chief operating decision maker now reviews the results of the Group's businesses separately.

The Group's activities are organised into two financial reporting segments: Retail and Commercial Banking.

There has been no change to the Group's segmental accounting for internal segment services or derivatives entered into by units for risk management purposes since 31 December 2017.

Half-year to 30 June 2018

	Retail £m	Commercial Banking £m	Other £m	Continuing operations £m	Discontinued Operations[1] £m	Adjustments £m	Total £m
Net interest income	**4,488**	**1,442**	**461**	**6,391**	**11**	**–**	**6,402**
Other income, net of insurance claims	**1,086**	**737**	**299**	**2,122**	**692**	**(296)**	**2,518**
Total income, net of insurance claims[2]	**5,574**	**2,179**	**760**	**8,513**	**703**	**(296)**	**8,920**
Costs	**(3,632)**	**(1,069)**	**(1,028)**	**(5,729)**	**(333)**	**296**	**(5,766)**
Trading surplus	**1,942**	**1,110**	**(268)**	**2,784**	**370**	**–**	**3,154**
Impairment	**(461)**	**9**	**22**	**(430)**	**–**	**–**	**(430)**
Profit on disposal	**–**	**–**	**–**	**–**	**1,010**	**–**	**1,010**
Profit before tax	**1,481**	**1,119**	**(246)**	**2,354**	**1,380**	**–**	**3,734**
Total external assets	**350,505**	**170,140**	**171,574**	**692,219**	**–**	**–**	**692,219**
Total external liabilities	**262,547**	**212,235**	**176,793**	**651,575**	**–**	**–**	**651,575**

[1] The Group's discontinued operations were previously in its Insurance segment.
[2] An analysis of segment income between internal and external revenue is not available.

2. Segmental analysis (continued)

Half-year to 30 June 2017

	Retail £m	Commercial Banking £m	Other £m	Continuing Operations £m	Discontinued Operations[1] £m	Adjustments £m	Total £m
Net interest income	4,186	1,496	259	5,941	(676)	–	5,265
Other income, net of insurance claims	1,169	1,035	585	2,789	1,552	(247)	4,094
Total income, net of insurance claims[2]	5,355	2,531	844	8,730	876	(247)	9,359
Costs	(4,223)	(1,255)	(470)	(5,948)	(487)	247	(6,188)
Trading surplus	1,132	1,276	374	2,782	389	–	3,171
Impairment	(218)	1	14	(203)	–	–	(203)
Profit before tax	914	1,277	388	2,579	389	–	2,968
Total external assets	349,594	186,185	133,024	668,803	154,227	(7,414)	815,616
Total external liabilities	261,855	236,211	127,252	625,318	146,518	(7,414)	764,422

[1] The Group's discontinued operations were previously in its Insurance segment.
[2] An analysis of segment income between internal and external revenue is not available.

3. Net fee and commission income

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m
Fee and commission income:		
Current accounts	**315**	367
Credit and debit card fees	**478**	460
Other	**497**	601
Total fee and commission income	**1,290**	1,428
Fee and commission expense	**(538)**	(487)
Net fee and commission income	**752**	941

Current account and credit and debit card fees principally arise in Retail. Other fees include corporate banking, treasury and other fees arising in Commercial Banking; and private banking and asset management fees.

4. Operating expenses

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m
Administrative expenses:		
Staff costs	**2,405**	2,258
Premises and equipment	**357**	388
Other expenses	**1,006**	1,000
	3,768	3,646
Depreciation and amortisation	**1,183**	1,091
Total operating expenses, excluding regulatory provisions	**4,951**	4,737
Regulatory provisions (note 13):		
Payment protection insurance provision	**546**	700
Other regulatory provisions	**232**	511
	778	1,211
Total operating expenses	**5,729**	5,948

5. Impairment

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m
Loans and advances to customers	**444**	200
Debt securities	**–**	(4)
Financial assets at amortised cost	**444**	196
Undrawn balances	**(15)**	1
Financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	**1**	6
Total impairment charged to the income statement	**430**	203

6. Taxation

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2018 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

An explanation of the relationship between tax expense and accounting profit is set out below:

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m
Profit before tax from continuing operations	**2,354**	2,579
Tax thereon at UK corporation tax rate of 19 per cent (2017: 19.25 per cent)	**(447)**	(496)
Impact of surcharge on banking profits	**(182)**	(231)
Non-deductible costs: conduct charges	**(92)**	(172)
Other non-deductible costs	**(23)**	(24)
Non-taxable income	**35**	32
Tax exempt gains on disposals	**1**	69
Recognition of losses that arose in prior years	**(10)**	9
Remeasurement of deferred tax due to rate changes	**–**	(42)
Differences in overseas tax rates	**3**	(1)
Adjustments in respect of prior years	**11**	(3)
Tax effect of share of results in joint ventures	**–**	1
Other items	**–**	–
Tax charge on profit from continuing operations	**(704)**	(858)

7. Financial assets at fair value through profit or loss

	At 30 June 2018 £m	At 31 Dec 2017 £m
Trading assets	**32,840**	42,830
Other financial assets at fair value through profit or loss:		
Treasury and other bills	**57**	18
Loans and advances to customers	**2,609**	–
Debt securities	**512**	2,710
Equity shares	**1,128**	50
	4,306	2,778
Total financial assets at fair value through profit or loss	**37,146**	45,608

8. Loans and advances to customers

	At 30 June 2018 £m	At 31 Dec 2017 £m
Agriculture, forestry and fishing	**7,219**	7,074
Energy and water supply	**1,525**	1,609
Manufacturing	**5,865**	7,886
Construction	**4,746**	4,428
Transport, distribution and hotels	**13,669**	14,074
Postal and communications	**2,165**	2,148
Property companies	**26,097**	27,606
Financial, business and other services	**52,121**	54,003
Personal:		
Mortgages	**298,219**	304,480
Other	**28,840**	28,757
Lease financing	**1,860**	2,094
Hire purchase	**14,691**	13,591
	457,017	467,750
Allowance for impairment losses on loans and advances to customers (note 9)	**(2,937)**	(2,195)
Total loans and advances to customers	**454,080**	465,555

Loans and advances to customers include advances securitised under the Group's securitisation and covered bond programmes (see note 11).

9. Allowance for impairment losses

In respect of drawn balances	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 31 December 2017				2,198
Adjustment for IFRS 9 (note 18)				1,033
Balance at 1 January 2018	575	1,114	1,542	3,231
Exchange and other adjustments	(7)	(1)	(35)	(43)
Advances written off	–	–	(795)	(795)
Recoveries of advances written off in previous years	–	–	113	113
Charge to the income statement	(59)	(141)	644	444
	509	972	1,469	2,950
In respect of undrawn balances				
Balance at 31 December 2017				30
Adjustment for IFRS 9 (note 18)				243
Balance at 1 January 2018	147	126	–	273
Exchange and other adjustments	(15)	(16)	21	(10)
Charge to the income statement	10	(36)	11	(15)
	142	74	32	248
At 30 June 2018	651	1,046	1,501	3,198
In respect of:				
Loans and advances to banks	1	–	–	1
Loans and advances to customers (note 8)	508	965	1,464	2,937
Debt securities	–	–	2	2
Other assets	–	7	3	10
Drawn balances	509	972	1,469	2,950
Provisions in relation to loan commitments and financial guarantees	142	74	32	248
Total allowance for impairment losses	651	1,046	1,501	3,198

10. Disposal groups and discontinued operations

(a) Discontinued operations

At 31 December 2017, the Group classified the assets and liabilities of the Scottish Widows Group as a held-for-sale disposal group on the basis that a sale of its operations to its ultimate holding company, Lloyds Banking Group plc, was expected to occur within 12 months; this sale completed in the first half of 2018.

The Group did not recognise any impairment relating to disposal groups classified as held-for-sale during the half-year to 30 June 2017.

These operations have been classified as discontinued operations and the profit after tax from these activities reported as a single line on the Group's income statement.

In order to fairly reflect the results and financial position of the Group's continuing operations and its discontinued operations, transactions that the continuing operations have with the discontinued operations are reported on the relevant line in the Group's income statement or balance sheet, with the matching transaction similarly reported in the discontinued operations income statement or balance sheet within the Group's disposal group. All such transactions fully eliminate within the Group's statutory consolidation and there is no net impact on profit before tax or equity.

Income statement

The results of the discontinued operations, up to the point of sale in 2018, are as follows:

	Half-year to 30 June 2018 £m	Half-year to 30 June 2017 £m
Interest and similar income	**14**	117
Interest and similar expense	**(3)**	(793)
Net interest income	**11**	(676)
Fee and commission income	**106**	210
Fee and commission expense	**(180)**	(303)
Net fee and commission income	**(74)**	(93)
Net trading income	**(790)**	5,223
Insurance premium income	**2,714**	4,099
Other operating income	**205**	299
Other income	**2,055**	9,528
Total income	**2,066**	8,852
Insurance claims	**(1,363)**	(7,976)
Total income, net of insurance claims	**703**	876
Operating expenses	**(333)**	(487)
Trading surplus	**370**	389
Profit on disposal of the discontinued operations	**1,010**	–
Profit before tax	**1,380**	389
Taxation	**(66)**	(58)
Profit after tax from discontinued operations	**1,314**	331

10. Disposal group and discontinued operations (continued)

Balance sheet

The asset and liabilities of the disposal group at 31 December 2017 were comprised as follows:

	As at 31 Dec 2017 £m
Assets	
Trading and other financial assets at fair value through profit or loss	125,051
Derivative financial instruments	3,465
Loans and receivables:	
Loans and advances to banks	2,337
Due from fellow Lloyds Banking Group undertakings	1,721
	4,058
Goodwill	1,836
Value of in-force business	4,839
Other intangible assets	169
Property, plant and equipment	3,655
Deferred tax assets	1
Other assets	11,153
Total assets of disposal group	154,227
Liabilities	
Deposits from banks	916
Due to fellow Lloyds Banking Group undertakings	2,063
Derivative financial instruments	3,147
Debt securities in issue	1,794
Liabilities arising from insurance contracts and participating investment contracts	103,434
Liabilities arising from non-participating investment contracts	15,447
Other liabilities	16,049
Retirement benefit obligations	77
Current tax liabilities	187
Deferred tax liabilities	823
Other provisions	236
Subordinated liabilities	2,345
Total liabilities of disposal group	146,518

Cumulative other comprehensive income relating to discontinued operations at 31 December 2017 was a deficit of £129 million.

10. Disposal group and discontinued operations (continued)

(b) Disposal group

During the second half of 2018, the Group will be selling its US and offshore operations to a fellow Lloyds Banking Group undertaking, Lloyds Bank Corporate Markets plc, as part of the ongoing programme for compliance with ring-fencing legislation. These businesses have been classified as a disposal group as at 30 June 2018. The assets and liabilities of the disposal group are comprised as follows:

	As at 30 June 2018 £m
Cash and balances at central banks	**12,041**
Loans and advances to customers	**7,041**
Amounts due from fellow Lloyds Banking Group undertakings	**14,213**
Other assets	**339**
Assets of held-for-sale disposal group	**33,634**
Customer deposits	**16,299**
Debt securities in issue	**2,423**
Amounts due to fellow Lloyds Banking Group undertakings	**13,967**
Other liabilities	**81**
Liabilities of held-for-sale disposal group	**32,770**

11. Debt securities in issue

	30 June 2018			**31 December 2017**		
	At fair value through profit or loss £m	**At amortised cost £m**	**Total £m**	At fair value through profit or loss £m	At amortised cost £m	Total £m
Medium-term notes issued	**7,043**	**19,243**	**26,286**	7,815	18,763	26,578
Covered bonds	**–**	**26,712**	**26,712**	–	26,132	26,132
Certificates of deposit	**–**	**8,955**	**8,955**	–	9,999	9,999
Securitisation notes	**54**	**5,050**	**5,104**	–	3,730	3,730
Commercial paper	**–**	**10,011**	**10,011**	–	3,241	3,241
Total debt securities in issue	**7,097**	**69,971**	**77,068**	7,815	61,865	69,680

The notes issued by the Group's securitisation and covered bond programmes are held by external parties and by subsidiaries of the Group.

Securitisation programmes

At 30 June 2018, external parties held £5,104 million (31 December 2017: £3,730 million) and the Group's subsidiaries held £21,698 million (31 December 2017: £21,466 million) of total securitisation notes in issue of £26,802 million (31 December 2017: £25,196 million). The notes are secured on loans and advances to customers and debt securities held at amortised cost amounting to £32,999 million (31 December 2017: £35,475 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. The structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet.

Covered bond programmes

At 30 June 2018, external parties held £26,712 million (31 December 2017: £26,132 million) and the Group's subsidiaries held £700 million (31 December 2017: £700 million) of total covered bonds in issue of £27,412 million (31 December 2017: £26,832 million). The bonds are secured on certain loans and advances to customers amounting to £35,384 million (31 December 2017: £31,989 million) that have been assigned to bankruptcy remote limited liability partnerships. These loans are retained on the Group's balance sheet.

Cash deposits of £3,763 million (31 December 2017: £3,507 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations are held by the Group.

12. Post-retirement defined benefit schemes

The Group's post-retirement defined benefit scheme obligations are comprised as follows:

	At 30 June 2018 £m	At 31 Dec 2017 £m
Defined benefit pension schemes:		
Fair value of scheme assets	**43,200**	43,722
Present value of funded obligations	**(41,739)**	(43,136)
Net pension scheme asset	**1,461**	586
Other post-retirement schemes	**(142)**	(144)
Net retirement benefit asset	**1,319**	442
Recognised on the balance sheet as:		
Retirement benefit assets	**1,584**	723
Retirement benefit obligations	**(265)**	(281)
Net retirement benefit asset	**1,319**	442

The movement in the Group's net post-retirement defined benefit scheme asset during the period was as follows:

	£m
Asset at 1 January 2018	**442**
Income statement charge	**(265)**
Employer contributions	**280**
Remeasurement	**871**
Exchange and other adjustments	**(9)**
Asset at 30 June 2018	**1,319**

The principal assumptions used in the valuations of the defined benefit pension scheme were as follows:

	At 30 June 2018 %	At 31 Dec 2017 %
Discount rate	**2.78**	2.59
Rate of inflation:		
Retail Prices Index	**3.11**	3.20
Consumer Price Index	**2.06**	2.15
Rate of salary increases	**0.00**	0.00
Weighted-average rate of increase for pensions in payment	**2.67**	2.71

13. Provisions for liabilities and charges

	Provisions for commitments £m	Payment Protection Insurance £m	Other regulatory provisions £m	Vacant leasehold property £m	Other £m	Total £m
Balance at 31 December 2017	**30**	**2,775**	**1,084**	**56**	**1,364**	**5,309**
Adjustment for IFRS 9	**243**					**243**
Balance at 1 January 2018	**273**					**5,552**
Exchange and other adjustments	**(10)**	**100**	**1**	**–**	**43**	**134**
Provisions applied	**–**	**(1,142)**	**(482)**	**(9)**	**(440)**	**(2,073)**
Charge for the period	**(15)**	**546**	**232**	**13**	**26**	**802**
At 30 June 2018	**248**	**2,279**	**835**	**60**	**993**	**4,415**

Payment protection insurance (excluding MBNA)

The Group increased the provision for PPI costs by a further £546 million in the half year to 30 June 2018, of which £456 million was in the second quarter, bringing the total amount provided to £19,192 million.

The charge in the second quarter is largely driven by a potentially higher total volume of complaints and associated administration costs due to higher reactive complaint volumes received over the past six months and ongoing volatility. The remaining provision is consistent with an average of approximately 13,000 complaints per week through to the industry deadline of the end of August 2019.

At 30 June 2018, a provision of £1,964 million remained unutilised relating to complaints and associated administration costs. Total cash payments were £1,017 million during the six month to 30 June 2018.

Sensitivities

The Group estimates that it has sold approximately 16 million PPI policies since 2000. These include policies that were not mis-sold and those that have been successfully claimed upon. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for approximately 53 per cent of the policies sold since 2000.

The total amount provided for PPI represents the Group's best estimate of the likely future cost. However a number of risks and uncertainties remain including with respect to future volumes. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required. There is also uncertainty around the impact of regulatory changes, FCA media campaign and Claims Management Company and customer activity, and any potential additional remediation arising from the continuous improvement of the Group's operational practices.

For every additional 1,000 reactive complaints per week above 13,000 on average from July 2018 through to the industry deadline of the end of August 2019, the Group would expect an additional charge of £150 million.

Payment protection insurance (MBNA)

With regard to MBNA, as announced in December 2016, the Group's exposure is capped at £240 million, already provided for, through an indemnity received from Bank of America. MBNA increased its PPI provision by £100 million in the half year to 30 June 2018, but the Group's exposure continues to remain capped at £240 million under the arrangement that it has with Bank of America notwithstanding this increase by MBNA.

13. Provisions for liabilities and charges (continued)

Other provisions for legal actions and regulatory matters

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers, investors and other third parties and is subject to legal proceedings and other legal actions. Where significant, provisions are held against the costs expected to be incurred in relation to these matters and matters arising from related internal reviews. During the six months to 30 June 2018 the Group charged a further £232 million in respect of legal actions and other regulatory matters, and the unutilised balance at 30 June 2018 was £835 million (31 December 2017: £1,084 million). The most significant items are as follows.

Arrears handling related activities

The Group has provided an additional £46 million (bringing the total provided to date to £688 million), for the costs of identifying and rectifying certain arrears management fees and activities. Following a review of the Group's arrears handling activities, the Group has put in place a number of actions to improve further its handling of customers in these areas and has made good progress in reimbursing mortgage arrears fees to the 565,000 impacted customers.

Packaged bank accounts

In the half-year to 30 June 2018, the Group provided an additional £25 million in respect of complaints relating to alleged mis-selling of packaged bank accounts raising the total amount provided to £775 million. A number of risks and uncertainties remain in particular with respect to future volumes.

HBOS Reading – customer review

The Group is undertaking a review into a number of customer cases from the former HBOS Impaired Assets Office based in Reading. This review follows the conclusion of a criminal trial in which a number of individuals, including two former HBOS employees, were convicted of conspiracy to corrupt, fraudulent trading and associated money laundering offences which occurred prior to the acquisition of HBOS by the Lloyds Banking Group in 2009. The Group provided £100 million in the year to 31 December 2017 and is in the process of paying compensation to the victims of the fraud for economic losses as well as ex-gratia payments and awards for distress and inconvenience. The review is ongoing and at 30 June 2018, the Group had made offers to 67 customers, which represents more than 90 per cent of the customers in the review.

14. Contingent liabilities and commitments

Interchange fees

With respect to multi-lateral interchange fees (MIFs), the Group is not directly involved in the ongoing investigations and litigation (as described below) which involve card schemes such as Visa and MasterCard. However, the Group is a member of Visa and MasterCard and other card schemes.

- The European Commission continues to pursue competition investigations against MasterCard and Visa probing, amongst other things, MIFs paid in respect of cards issued outside the EEA;
- Litigation brought by retailers continues in the English Courts against both Visa and MasterCard.
- Any ultimate impact on the Group of the above investigations and litigation against Visa and MasterCard remains uncertain at this time.

Visa Inc completed its acquisition of Visa Europe on 21 June 2016. As part of this transaction, the Group and certain other UK banks also entered into a Loss Sharing Agreement (LSA) with Visa Inc, which clarifies the allocation of liabilities between the parties should the litigation referred to above result in Visa Inc being liable for damages payable by Visa Europe. The maximum amount of liability to which the Group may be subject under the LSA is capped at the cash consideration which was received by the Group at completion. Visa Inc may also have recourse to a general indemnity, previously in place under Visa Europe's Operating Regulations, for damages claims concerning inter or intra-regional MIF setting activities.

LIBOR and other trading rates

In July 2014, the Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Group companies' submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate. The Group continues to cooperate with various other government and regulatory authorities, including the Swiss Competition Commission, and a number of US State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates.

Certain Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US Dollar, Japanese Yen and Sterling LIBOR and the Australian BBSW Reference Rate. Certain of the plaintiffs' claims, including those in connection with USD and JPY LIBOR, have been dismissed by the US Federal Court for Southern District of New York (subject to one appeal), and decisions are awaited on the Group's motions to dismiss the Sterling LIBOR and BBSW claims.

Certain Group companies are also named as defendants in (i) UK based claims; and (ii) in a Dutch class action, each raising LIBOR manipulation allegations. A number of the claims against the Group in relation to the alleged mis-sale of interest rate hedging products also include allegations of LIBOR manipulation.

It is currently not possible to predict the scope and ultimate outcome on the Group of the various outstanding regulatory investigations not encompassed by the settlements, any private lawsuits or any related challenges to the interpretation or validity of any of the Group's contractual arrangements, including their timing and scale.

14. Contingent liabilities and commitments (continued)

UK shareholder litigation

In August 2014, the Lloyds Banking Group and a number of former directors were named as defendants in a claim by a number of claimants who held shares in Lloyds TSB Group plc (LTSB) prior to the acquisition of HBOS plc, alleging breaches of duties in relation to information provided to shareholders in connection with the acquisition and the recapitalisation of LTSB. The defendants refute all claims made. A trial commenced in the English High Court on 18 October 2017 and concluded on 5 March 2018 with judgment to follow. It is currently not possible to determine the ultimate impact on the Group (if any).

Tax authorities

The Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules which allow the offset of such losses denies the claim. If HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities of approximately £650 million (including interest) and a reduction in the Lloyds Banking Group's deferred tax asset of approximately £350 million (overall impact on the Group of £900 million). The Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due. There are a number of other open matters on which the Group is in discussion with HMRC (including the tax treatment of certain costs arising from the divestment of TSB Banking Group plc), none of which is expected to have a material impact on the financial position of the Group.

Residential mortgage repossessions

In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases concerning certain aspects of the Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The FCA is actively engaged with the industry in relation to these considerations and has published Guidance on the treatment of customers with mortgage payment shortfalls. The Guidance covers remediation for mortgage customers who may have been affected by the way firms calculate these customers' monthly mortgage instalments. The Group is implementing the Guidance and has now contacted most of the affected customers with any remaining customers being contacted during 2018.

Mortgage arrears handling activities

On 26 May 2016, the Group was informed that an enforcement team at the FCA had commenced an investigation in connection with the Group's mortgage arrears handling activities. This investigation is ongoing and it is currently not possible to make a reliable assessment of the liability, if any, that may result from the investigation.

14. Contingent liabilities and commitments (continued)

Other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Contingent liabilities and commitments arising from the banking business

	At 30 June 2018 £m	At 31 Dec 2017 £m
Contingent liabilities		
Acceptances and endorsements	**72**	71
Other:		
Other items serving as direct credit substitutes	**901**	740
Performance bonds and other transaction-related contingencies	**2,306**	2,300
	3,207	3,040
Total contingent liabilities	**3,279**	3,111
Commitments		
Documentary credits and other short-term trade-related transactions	**1**	–
Forward asset purchases and forward deposits placed	**184**	384
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	**12,814**	11,156
Other commitments	**83,386**	81,793
	96,200	92,949
1 year or over original maturity	**35,124**	36,386
Total commitments	**131,509**	129,719

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £60,930 million (31 December 2017: £60,126 million) was irrevocable.

15. Fair values of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine those fair values. Note 43 to the Group's 2017 financial statements describes the definitions of the three levels in the fair value hierarchy.

Valuation control framework

Key elements of the valuation control framework, which covers processes for all levels in the fair value hierarchy including level 3 portfolios, include model validation (incorporating pre-trade and post-trade testing), product implementation review and independent price verification. Formal committees meet quarterly to discuss and approve valuations in more judgemental areas.

Transfers into and out of level 3 portfolios

Transfers out of level 3 portfolios arise when inputs that could have a significant impact on the instrument's valuation become market observable; conversely, transfers into the portfolios arise when consistent sources of data cease to be available.

Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to what was disclosed in the Group's 2017 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied to such portfolios.

The table below summarises the carrying values of financial assets and liabilities presented on the Group's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	30 June 2018		31 December 2017	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Financial assets at fair value through profit or loss	**37,146**	**37,146**	45,608	45,608
Derivative financial instruments	**20,802**	**20,802**	24,152	24,152
Loans and advances to banks	**5,073**	**5,081**	4,274	4,261
Loans and advances to customers	**454,080**	**453,886**	465,555	465,268
Debt securities	**4,274**	**4,267**	3,637	3,580
Due from fellow Lloyds Banking Group undertakings	**27,485**	**27,485**	6,195	6,195
Financial assets at amortised cost	**490,912**	**490,719**	479,661	479,304
Financial assets at fair value through other comprehensive income	**31,300**	**31,300**		
Available-for-sale financial assets			41,717	41,717
Financial liabilities				
Deposits from banks	**27,822**	**27,810**	28,888	28,883
Customer deposits	**401,558**	**401,828**	418,124	418,413
Due to fellow Lloyds Banking Group undertakings	**35,965**	**35,965**	13,237	13,237
Financial liabilities at fair value through profit or loss	**39,645**	**39,645**	50,874	50,874
Derivative financial instruments	**18,971**	**18,971**	24,699	24,699
Debt securities in issue	**69,971**	**72,433**	61,865	64,790
Subordinated liabilities	**13,151**	**15,458**	14,782	17,288

15. Fair values of financial assets and liabilities (continued)

The carrying amount of the following financial instruments is a reasonable approximation of fair value: cash and balances at central banks, items in the course of collection from banks, items in course of transmission to banks and notes in circulation.

The Group manages valuation adjustments for its derivative exposures on a net basis; the Group determines their fair values on the basis of their net exposures. In all other cases, fair values of financial assets and liabilities measured at fair value are determined on the basis of their gross exposures.

The following tables provide an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group's consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2018				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	–	**24,761**	**1,965**	**26,726**
Loans and advances to banks	–	**1,208**	–	**1,208**
Debt securities	**7,527**	**500**	–	**8,027**
Equity shares	**793**	**17**	**318**	**1,128**
Treasury and other bills	**57**	–	–	**57**
Total financial assets at fair value through profit or loss	**8,377**	**26,486**	**2,283**	**37,146**
Financial assets at fair value through other comprehensive income:				
Debt securities	**23,246**	**7,263**	**334**	**30,843**
Equity shares	**112**	**4**	**18**	**134**
Treasury and other bills	**323**	–	–	**323**
Total financial assets at fair value through other comprehensive income	**23,681**	**7,267**	**352**	**31,300**
Derivative financial instruments	–	**20,727**	**75**	**20,802**
Total financial assets carried at fair value	**32,058**	**54,480**	**2,710**	**89,248**
At 31 December 2017				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	–	30,568	–	30,568
Loans and advances to banks	–	1,614	–	1,614
Debt securities	9,836	3,522	–	13,358
Equity shares	–	–	50	50
Treasury and other bills	18	–	–	18
Total financial assets at fair value through profit or loss	9,854	35,704	50	45,608
Available-for-sale financial assets:				
Debt securities	34,763	6,046	92	40,901
Equity shares	555	38	223	816
Total available-for-sale financial assets	35,318	6,084	315	41,717
Derivative financial instruments	1	23,095	1,056	24,152
Total financial assets carried at fair value	45,173	64,883	1,421	111,477

15. Fair values of financial assets and liabilities (continued)

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2017 – disposal group				
Financial assets at fair value through profit or loss:				
Debt securities	10,445	27,553	874	38,872
Equity shares	85,289	18	872	86,179
Total financial assets at fair value through profit or loss	95,734	27,571	1,746	125,051
Derivative financial instruments	245	3,220	–	3,465
Total financial assets carried at fair value	95,979	30,791	1,746	128,516

Financial liabilities

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2018				
Financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	–	**7,822**	–	**7,822**
Trading liabilities	**55**	**31,768**	–	**31,823**
Total trading and other financial liabilities at fair value through profit or loss	**55**	**39,590**	–	**39,645**
Derivative financial instruments	–	**18,846**	**125**	**18,971**
Total financial liabilities carried at fair value	**55**	**58,436**	**125**	**58,616**
At 31 December 2017				
Financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	–	7,812	–	7,812
Trading liabilities	1,106	41,956	–	43,062
Total trading and other financial liabilities at fair value through profit or loss	1,106	49,768	–	50,874
Derivative financial instruments	2	23,893	804	24,699
Total financial liabilities carried at fair value	1,108	73,661	804	75,573

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2017 – disposal group				
Total financial liabilities carried at fair value – derivative financial instruments	585	2,562	–	3,147

15. Fair values of financial assets and liabilities (continued)

Movements in level 3 portfolio

The tables below analyse movements in the level 3 financial assets portfolio.

	Financial assets at fair value through profit or loss £m	**Financial assets at fair value through other comprehensive income £m**	**Available-for-sale financial assets £m**	**Derivative assets £m**	**Total financial assets carried at fair value £m**
Balance at 31 December 2017	**50**		**315**	**1,056**	**1,421**
Adjustment for IFRS 9 (note 18)	**1,987**	**302**	**(315)**		**1,974**
Balance at 1 January 2018	**2,037**	**302**			**3,395**
Exchange and other adjustments	**7**	**(1)**		**–**	**6**
Gains recognised in the income statement within other income	**38**	**–**		**2**	**40**
Losses recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**–**	**1**		**–**	**1**
Purchases	**8**	**–**		**–**	**8**
Sales	**–**	**(91)**		**(983)**	**(1,074)**
Transfers into the level 3 portfolio	**193**	**334**		**–**	**527**
Transfers out of the level 3 portfolio	**–**	**(193)**		**–**	**(193)**
At 30 June 2018	**2,283**	**352**		**75**	**2,710**
Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2018	**12**	**–**		**2**	**14**

	Financial assets at fair value through profit or loss £m	Available-for-sale financial assets £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2017	2,305	894	1,399	4,598
Exchange and other adjustments	(3)	(15)	18	–
Losses recognised in the income statement within other income	(42)	–	(226)	(268)
Losses recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	(199)	–	(199)
Purchases	263	24	5	292
Sales	(244)	(23)	(40)	(307)
Transfers into the level 3 portfolio	–	–	–	–
Transfers out of the level 3 portfolio	(19)	(21)	(44)	(84)
At 30 June 2017	2,260	660	1,112	4,032
Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2017	185	–	(227)	(42)

15. Fair values of financial assets and liabilities (continued)

Disposal group	**Financial assets at fair value through profit or loss £m**
Balance at 31 December 2017	**1,746**
Adjustment for IFRS 9 (note 18)	**6,755**
Balance at 1 January 2018	**8,501**
Exchange and other adjustments	**(17)**
Gains recognised in the income statement within other income	**27**
Purchases	**97**
Sales	**(270)**
Disposal of business	**(8,400)**
Transfers into the level 3 portfolio	**230**
Transfers out of the level 3 portfolio	**(168)**
At 30 June 2018	**–**
Gains recognised in the income statement within other income relating to those assets held at 30 June 2018	**–**

Disposal group	Financial assets at fair value through profit or loss £m
At 1 January 2017	1,501
Exchange and other adjustments	(1)
Gains recognised in the income statement within other income	53
Purchases	40
Sales	(87)
Transfers into the level 3 portfolio	56
Transfers out of the level 3 portfolio	(104)
At 30 June 2017	1,458
Gains recognised in the income statement within other income relating to those assets held at 30 June 2017	49

15. Fair values of financial assets and liabilities (continued)

The tables below analyse movements in the level 3 financial liabilities portfolio.

	Financial liabilities at fair value through profit or loss £m	**Derivative liabilities £m**	**Total financial liabilities carried at fair value £m**
At 1 January 2018	**–**	**804**	**804**
Exchange and other adjustments	**–**	**–**	**–**
Gains recognised in the income statement within other income	**–**	**(30)**	**(30)**
Additions	**–**	**–**	**–**
Redemptions	**–**	**(2)**	**(2)**
Sales	**–**	**(647)**	**(647)**
Transfers out of level 3 portfolio	**–**	**–**	**–**
At 30 June 2018	**–**	**125**	**125**
Gains recognised in the income statement within other income relating to those liabilities held at 30 June 2018	**–**	**(30)**	**(30)**

	Financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Total financial liabilities carried at fair value £m
At 1 January 2017	2	960	962
Exchange and other adjustments	–	14	14
Gains recognised in the income statement within other income	(2)	(207)	(209)
Additions	–	19	19
Redemptions	–	(26)	(26)
At 30 June 2017	–	760	760
Losses recognised in the income statement within other income relating to those liabilities held at 30 June 2017	–	(209)	(209)

15. Fair values of financial assets and liabilities (continued)

The tables below set out the effects of reasonably possible alternative assumptions for categories of level 3 financial assets and financial liabilities which have an aggregated carrying value greater than £500 million.

				At 30 June 2018		
					Effect of reasonably possible alternative assumptions[1]	
	Valuation technique(s)	Significant unobservable inputs	Range[2]	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss:						
Loans and advances to customers	Discounted cashflows	Inferred spreads (bps)	**98bps / 102bps**	**1,964**	**39**	**(39)**
Other				**319**		
				2,283		
Financial assets at fair value through other comprehensive income:				**352**		
Derivative financial assets:						
Interest rate derivatives	Option pricing model	Interest rate volatility		**75**	**–**	**–**
				75		
Financial assets carried at fair value				**2,710**		
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities:						
Interest rate derivatives	Option pricing model	Interest rate volatility		**125**	**–**	**–**
				125		
Financial liabilities carried at fair value				**125**		

[1] Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

[2] The range represents the highest and lowest inputs used in the level 3 valuations.

15. Fair values of financial assets and liabilities (continued)

	Valuation technique(s)	Significant unobservable inputs	Range[2]	At 31 December 2017 Carrying value £m	Effect of reasonably possible alternative assumptions[1] Favourable changes £m	Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss:						
Equity and venture capital investments	Underlying asset/ net asset value (incl. property prices) [3]	n/a		50	5	(5)
				50		
Available for sale financial assets				315		
Derivative financial assets:						
Interest rate derivatives	Option pricing model	Interest rate volatility	9% / 94%	1,056	11	(3)
				1,056		
Financial assets carried at fair value				1,421		
Derivative financial liabilities:						
Interest rate derivatives	Option pricing model	Interest rate volatility	9% / 94%	804	–	–
				804		
Financial liabilities carried at fair value				804		

[1] Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

[2] The range represents the highest and lowest inputs used in the level 3 valuations.

[3] Underlying asset/ net asset values represent fair value.

15. Fair values of financial assets and liabilities (continued)

Disposal group

	Valuation technique(s)	Significant unobservable inputs	Range[2]	At 31 December 2017 Carrying value £m	Effect of reasonably possible alternative assumptions[1] Favourable changes £m	Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss:						
Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/net asset value (incl. property prices), broker quotes or discounted cash flows[3]	n/a	n/a	1,746	26	(76)
Financial assets carried at fair value				1,746		

[1] Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

[2] The range represents the highest and lowest inputs used in the level 3 valuations.

[3] Underlying asset/net asset values represent fair value.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are unchanged from those described in the Group's 2017 financial statements.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and are unchanged from those described in the Group's 2017 financial statements.

16. Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

The Bank and its subsidiaries have balances due to and from the Bank's parent company, Lloyds Banking Group plc, and fellow Group undertakings. These are included on the balance sheet as follows:

	At 30 June 2018 £m	At 31 Dec 2017 £m
Assets		
Due from fellow Lloyds Banking Group undertakings	**27,485**	6,195
Derivative financial instruments	**9,247**	666
Trading and other financial assets at fair value through profit or loss	**677**	1,949
Liabilities		
Due to fellow Lloyds Banking Group undertakings	**35,965**	13,237
Derivative financial instruments	**7,577**	1,384
Financial liabilities at fair value through profit or loss	**726**	–
Debt securities in issue	**172**	181
Subordinated liabilities	**3,107**	2,841

During the half-year to 30 June 2018 the Group earned £34 million (half-year to 30 June 2017: £26 million) of interest income and incurred £235 million (half-year to 30 June 2017: £119 million) of interest expense on balances and transactions with Lloyds Banking Group plc and fellow Group undertakings.

On 2 May 2018 to Bank completed the sale of Scottish Widows Group to its parent company, Lloyds Banking Group plc, for a consideration of £7,622 million. The Group recorded a profit of £1,010 million on this sale.

Also in May 2018, the Bank and its subsidiary, Bank of Scotland plc, sold the element of their commercial banking businesses required to be transferred in order to ensure compliance with the Ring-fencing legislation to Lloyds Bank Corporate Markets plc, a fellow Lloyds Banking Group undertaking, for a total consideration of £6.6 billion; no profit or loss arose on transfer.

Other related party transactions

Other related party transactions for the half-year to 30 June 2018 are similar in nature to those for the year ended 31 December 2017.

17. Dividends on ordinary shares

The directors have approved an interim dividend of £600 million which will be paid in the second half of 2018.

The Bank paid a dividend of £7,622 million on 2 May 2018 and a dividend of £2,800 million on 16 May 2018; the Bank paid dividends of £1,600 million on 11 May 2017 and a further £1,050 million on 22 September 2017.

18. Implementation of IFRS 9 and IFRS 15

IFRS 9 *Financial Instruments*

The Group adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 January 2018, the date of initial application; and as a result shareholders' equity reduced by £1,180 million, driven by the effects of additional impairment provisions following the implementation of the expected credit loss methodology and fair value adjustments following the reclassification of certain financial assets to be measured at fair value rather than amortised cost. It is not practicable to quantify the impact of adoption of IFRS 9 in the results for the current period.

The following table summarises the impact of the transitional adjustment on the Group's loss allowances at 1 January 2018:

	IAS 39 allowance at 31 December 2017 £m	Transitional adjustment in loss allowance £m	IFRS 9 loss allowance at 1 January 2018 £m
Loans and advances to banks	–	1	**1**
Loans and advances to customers	2,195	1,022	**3,217**
Debt securities	3	-	**3**
Other assets	–	10	**10**
Drawn balances	2,198	1,033	**3,231**
Provisions for undrawn commitments and financial guarantees	30	243	**273**
Total loss allowance	2,228	1,276	**3,504**

There were no impacts on the Group's loss allowances as a result of changes in the measurement category of financial assets at 1 January 2018.

18. Implementation of IFRS 9 and IFRS 15 (continued)

The following table summarises the adjustments arising on the adoption of IFRS 9 and IFRS 15 (see below) to the Group's balance sheet as at 1 January 2018.

	As at 31 December 2017 £m	IFRS 9: Classification and measurement £m	IFRS 9: Impairment £m	IFRS 15 £m	Adjusted as at 1 January 2018 £m
Assets					
Cash and balances at central banks	58,521	–	–	–	**58,521**
Items in course of collection from banks	755	–	–	–	**755**
Financial assets at fair value through profit or loss	45,608	13,130	–	–	**58,738**
Derivative financial instruments	24,152	(360)	–	–	**23,792**
Loans and advances to banks	4,274	(2,364)	(1)	–	**1,909**
Loans and advances to customers	465,555	(10,460)	(1,022)	–	**454,073**
Debt securities	3,637	(329)	–	–	**3,308**
Due from fellow Lloyds Banking Group undertakings	6,195	–	–	–	**6,195**
Financial assets at amortised cost	479,661	(13,153)	(1,023)	–	**465,485**
Financial assets at fair value through other comprehensive income		42,536	–	–	**42,536**
Available-for-sale financial assets	41,717	(41,717)	–	–	
Goodwill	474	–	–	–	**474**
Other intangible assets	2,666	–	–	–	**2,666**
Property, plant and equipment	9,062	–	–	–	**9,062**
Current tax recoverable	16	–	–	–	**16**
Deferred tax assets	3,104	22	300	3	**3,429**
Retirement benefit assets	723	–	–	–	**723**
Assets of held-for-sale disposal group	154,227	–	–	–	**154,227**
Other assets	2,344	(655)	(10)	–	**1,679**
Total assets	823,030	(197)	(733)	3	**822,103**

18. Implementation of IFRS 9 and IFRS 15 (continued)

	As at 31 December 2017 £m	IFRS 9: Classification and measurement £m	IFRS 9: Impairment £m	IFRS 15 £m	Adjusted as at 1 January 2018 £m
Equity and liabilities					
Liabilities					
Deposits from banks	28,888	–	–	–	**28,888**
Customer deposits	418,124	–	–	–	**418,124**
Due to fellow Lloyds Banking Group undertakings	13,237	–	–	–	**13,237**
Items in course of transmission to banks	579	–	–	–	**579**
Financial liabilities at fair value through profit or loss	50,874	58	–	–	**50,932**
Derivative financial instruments	24,699	–	–	–	**24,699**
Notes in circulation	1,313	–	–	–	**1,313**
Debt securities in issue	61,865	(48)	–	–	**61,817**
Liabilities of held-for-sale disposal group	146,518	–	–	–	**146,518**
Other liabilities	4,540	–	(3)	14	**4,551**
Retirement benefit obligations	281	–	–	–	**281**
Current tax liabilities	827	–	–	–	**827**
Other provisions	5,309	–	243	–	**5,552**
Subordinated liabilities	14,782	–	–	–	**14,782**
Total liabilities	771,836	10	240	14	**772,100**
Equity					
Shareholders' equity	47,598	(207)	(973)	(11)	**46,407**
Other equity instruments	3,217	–	–	–	**3,217**
Non-controlling interests	379	–	–	–	**379**
Total equity	51,194	(207)	(973)	(11)	**50,003**
Total equity and liabilities	823,030	(197)	(733)	3	**822,103**

18. Implementation of IFRS 9 and IFRS 15 (continued)

Reclassifications

Balance sheet line item	**IFRS 9 Measurement category**	**In £m**	**Out £m**	**IFRS 9 allocation**	**Net reclassification £m**
Financial assets					
Financial assets at FVTPL	FVTPL	14,447	(1,139)	FVOCI	13,308
Derivative assets	FVTPL (Der)		(360)	FVTPL	(360)
Loans and advances					
− Banks	AC		(90)	FVOCI	(2,364)
			(2,274)	FVTPL	
− Customers	AC		(10,474)	FVTPL	(10,474)
− Debt securities	AC		(329)	FVOCI	(329)
			(13,167)		(13,167)
Financial assets at FVOCI	FVOCI	42,591	–		42,591
Available-for-sale assets			(684)	FVTPL	
			(41,033)	FVOCI	
			(41,717)		(41,717)
Other assets	AC		(655)	FVTPL	(655)
Financial liabilities					
Financial liabilities at FVTPL	FVTPL	48			48
Debt securities in issue	AC		(48)	FVTPL	(48)
Total		57,086	(57,086)		–

Remeasurements

There has been a pre-tax charge of £229 million (£207 million net of tax) arising from the reclassification of financial assets and liabilities to fair value through profit or loss and fair value through other comprehensive income and consequent remeasurement to fair value.

IFRS 15 *Revenue from Contracts with Customers*

The Group has adopted IFRS 15 from 1 January 2018 and in nearly all cases the Group's existing accounting policy was consistent with the requirements of IFRS 15; however, certain income streams within the Group's car leasing business are now deferred, resulting in an additional £14 million being recognised as deferred income at 1 January 2018 with a corresponding debit of £11 million, net of tax, to shareholders' equity. As permitted by the transition options under IFRS 15, comparative figures for the prior year have not been restated. The impact of adoption of IFRS 15 on the current period is not material.

19. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2018 and have not been applied in preparing these interim financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Group and reliable estimates cannot be made at this stage.

With the exception of IFRS 16 *Leases*, as at 31 July 2018 these pronouncements are awaiting EU endorsement.

IFRS 16 *Leases*

IFRS 16 replaces IAS 17 *Leases* and is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. This change will mainly impact the properties that the Group currently accounts for as operating leases. Finance systems will need to be changed to reflect the new accounting rules and disclosures. Lessor accounting requirements remain aligned to the current approach under IAS 17.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2019 (including IFRIC 23 Uncertainty over Income Tax Treatments). These revised requirements are not expected to have a significant impact on the Group.

20. Ultimate parent undertaking

The Bank's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published consolidated accounts for the year to 31 December 2017 and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN and available for download from www.lloydsbankinggroup.com.

21. Other information

The financial information in these condensed consolidated half-year financial statements does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include an emphasis of matter paragraph and did not include a statement under section 498 of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors listed below (being all the directors of Lloyds Bank plc) confirm that to the best of their knowledge these condensed consolidated half-year financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted by the European Union, and that the half-year results herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the six months ended 30 June 2018 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2018 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by

António Horta-Osório
Group Chief Executive
31 July 2018

Lloyds Bank plc board of directors:
António Horta-Osório (Group Chief Executive)
George Culmer (Chief Financial Officer)
Juan Colombás (Chief Risk Officer)
Lord Blackwell (Chairman)
Anita Frew (Deputy Chairman)
Alan Dickinson
Simon Henry
Lord Lupton CBE
Deborah McWhinney
Nicholas Prettejohn
Stuart Sinclair
Sara Weller CBE

INDEPENDENT REVIEW REPORT TO LLOYDS BANK PLC

Report on the condensed consolidated half-year financial statements

Our conclusion

We have reviewed Lloyds Bank plc's condensed consolidated half-year financial statements (the "interim financial statements") in the 2018 half-year results of Lloyds Bank plc (the "Bank") for the six month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2018;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2018 half-year results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The 2018 half-year results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the 2018 half-year results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the 2018 half-year results based on our review. This report, including the conclusion, has been prepared for and only for the Bank for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the 2018 half-year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
31 July 2018

CONTACTS

For further information please contact:

INVESTORS AND ANALYSTS
Douglas Radcliffe
Group Investor Relations Director
020 7356 1571
douglas.radcliffe@finance.lloydsbanking.com

Edward Sands
Director of Investor Relations
020 7356 1585
edward.sands@lloydsbanking.com

Nora Thoden
Director of Investor Relations
020 7356 2334
andrew.downey@finance.lloydsbanking.com

CORPORATE AFFAIRS
Grant Ringshaw
Director of Media Relations
020 7356 2362
grant.ringshaw@lloydsbanking.com

Matt Smith
Head of Corporate Media
020 7356 3522
matt.smith@lloydsbanking.com

Copies of this news release may be obtained from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The full news release can also be found on the Group's website – www.lloydsbankinggroup.com.

Registered office: Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ
Registered in Scotland No. 95000