Lloyds Banking Group plc
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

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

1 August 2013

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

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

(Address of principal executive offices)

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

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

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

Yes ..... No ..X..

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

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 1 August 2013
re: 2013 Half-Year Results News Release

2013 Half-Year Results
News Release

Lloyds Banking Group plc

1 August 2013

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the half-year ended 30 June 2013.

Statutory basis

Statutory results are set out on pages 104 to 153. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2013 results with 2012 is of limited benefit.

Underlying basis

In order to present a more meaningful view of business performance, the results of the Group and divisions are presented on an underlying basis. The key principles adopted in the preparation of the underlying basis of reporting are described below.

· In order to reflect the impact of the acquisition of HBOS, the following have been excluded:

– the amortisation of purchased intangible assets; and

– the unwind of acquisition-related fair value adjustments.

· The following items, not related to acquisition accounting, have also been excluded from underlying profit:

- the effects of certain asset sales, liability management and volatile items;
- volatility arising in insurance businesses;
- Simplification costs;
- Verde costs;
- payment protection insurance provision;
- insurance gross up;
- certain past service pensions credits in respect of the Group's defined benefit pension schemes; and
- other regulatory provisions.

The financial statements have been restated following the implementation of IAS 19R Employee Benefits and IFRS 10 Consolidated Financial Statements with effect from 1 January 2013. Further details are shown on page 145.

To enable a better understanding of the Group's core business trends and outlook, certain income statement, balance sheet and regulatory capital information is analysed between core and non-core portfolios. The non-core portfolios consist of businesses which deliver below-hurdle returns, which are outside the Group's risk appetite or may be distressed, are subscale or have an unclear value proposition, or have a poor fit with the Group's customer strategy. The EC mandated retail business disposal (Project Verde) is included in core portfolios.

The Group's core and non-core activities are not managed separately and the preparation of this information requires management to make estimates and assumptions that impact the reported income statements, balance sheet, regulatory capital related and risk amounts analysed as core and as non-core. The Group uses a methodology that categorises income and expenses as non-core only where management expect that the income or expense will cease to be earned or incurred when the associated asset or liability is divested or run-off, and allocates operational costs to the core portfolio unless they are directly related to non-core activities. This results in the reported operating costs for the non-core portfolios being less than would be required to manage these portfolios on a stand-alone basis. Due to the inherent uncertainty in making estimates, a different methodology or a different estimate of the allocation might result in a different proportion of the Group's income or expenses being allocated to the core and non-core portfolios, different assets and liabilities being deemed core or non-core and accordingly a different allocation of the regulatory effects.

Unless otherwise stated income statement commentaries throughout this document compare the half-year ended 30 June 2013 to the half-year ended 30 June 2012, and the balance sheet analysis compares the Group balance sheet as at 30 June 2013 to the Group balance sheet as at 31 December 2012.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances that will or may occur. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; and to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including changes in interest rates and exchange rates; changing demographic and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK, the European Union, or other jurisdictions in which the Group operates, including the US; the implementation of Recovery and Resolution Directive and banking reform following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to satisfactorily dispose of certain assets or otherwise meet the Group's EC state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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RESULTS FOR THE HALF-YEAR TO 30 JUNE 2013
ACCELERATED PROGRESS IN DELIVERING STRATEGIC PLAN

'In the two years since we set out our strategic plan to become the best bank for customers, we have transformed the Group with increasing momentum, reshaping the business to focus on our core UK franchise, significantly reducing costs and risk, and simplifying and improving our service, products, and processes. As a result, we are now well on track to create a bank with a leading cost position, lower risk, a lower cost of equity, and products and services focused on our customers' needs, to deliver strong, stable and sustainable returns to our shareholders.

We accelerated the pace of delivery on key elements of our strategic plan in the first half of the year. We returned our core loan book to growth a quarter earlier than expected, delivered a significant improvement in our net interest margin, and are targeting additional cost reductions. We have also substantially strengthened our balance sheet and reduced risk through building our capital further and reducing non-core assets more quickly. At the same time, we are continuing to support the UK economic recovery and are making substantial improvements in our service to customers through additional investments in our simple, UK customer-focused retail and commercial banking model.'

António Horta-Osório
Group Chief Executive

KEY HIGHLIGHTS

- Accelerated progress in delivering strategic plan in the first half of 2013.

- Substantial increase in underlying profit of £1,858 million to £2,902 million with income growth of 2 per cent, increased net interest margin of 2.01 per cent and further cost and impairment reductions, down 6 per cent and 43 per cent respectively.

- Statutory profit of £2,134 million (first half of 2012: loss of £456 million).

- Core underlying income up 6 per cent with accelerated core loan book growth in second quarter.

- Upgraded guidance for net interest margin improvement, cost reduction, non-core asset reduction and capital build.

- Now expect full year 2013 net interest margin of close to 2.10 per cent.

- Further reduction in costs, as reported in guidance given in first quarter results.

- Non-core asset reduction of £17 billion, ahead of plan and capital accretive.

- Now targeting non-core assets of less than £70 billion by end 2013, a year earlier than previously expected. Non-retail non-core assets expected to be less than £30 billion at end 2013, and less than £20 billion at end 2014.

- Capital build ahead of expectations with fully loaded core tier 1 ratio of 9.6 per cent; now targeting fully loaded core tier 1 ratio of above 10 per cent by year end, twelve months ahead of plan.

RESULTS SUMMARY

Substantial increase in Group underlying profit and return to statutory profit

- Group underlying profit of £2,902 million (half-year to 30 June 2012: £1,044 million).

- Statutory profit before tax of £2,134 million (half-year to 30 June 2012: £456 million loss).

- Group return on risk-weighted assets increased from 0.61 per cent to 1.95 per cent.

- Total underlying income of £9,464 million, up 2 per cent; decreased 2 per cent excluding St. James's Place effects.

- Group net interest margin increased to 2.01 per cent, ahead of guidance.

- Costs further reduced by 6 per cent to £4,749 million; Simplification run-rate savings increased to £1,160 million.

- 43 per cent reduction in impairment charge to £1,813 million (half-year to 30 June 2012: £3,157 million).

Core returns further improved and increased core underlying profit

- Core underlying profit increased by 26 per cent to £3,696 million (half-year to 30 June 2012: £2,931 million).

- Return on risk-weighted assets increased from 2.44 per cent to 3.16 per cent.

- Core underlying income of £9,071 million, up 6 per cent; increased 1 per cent excluding St. James's Place effects.

- Loans and advances increased by £3.0 billion or 1 per cent in the first half of 2013.

- Net interest margin of 2.39 per cent improved by 7 basis points.

- 4 per cent reduction in core costs to £4,468 million (half-year to 30 June 2012: £4,667 million).

Strong balance sheet; continue to de-risk and strengthen balance sheet and capital position

- Fully loaded core tier 1 ratio significantly improved at 9.6 per cent, after legacy charges of £575 million, driven by underlying capital generation, capital accretive non-core reduction and management actions.

- Core tier 1 capital ratio increased to 13.7 per cent (31 December 2012: 12.0 per cent).

- Tier 1 leverage ratio of 4.2 per cent (31 December 2012: 3.8 per cent).

- Continued capital-accretive non-core asset reduction of £17 billion on a constant currency basis, £16 billion after currency effects. Non-core assets now £83 billion, including non-retail assets of £36 billion.

- Ahead of target in reducing our international presence with 17 countries or overseas branches now exited, or exit announced; now targeting a presence in less than 10 countries by end 2014.

- Core loan to deposit ratio of 100 per cent; Group loan to deposit ratio of 117 per cent; deposit growth of 2 per cent in the half-year.

Supporting customers and the UK economic recovery

- Commercial Banking core loan book returned to growth (4 per cent growth in the half-year).

- Positive SME net lending growth of 5 per cent in the last twelve months, against market contraction of 3 per cent.

- Over £1 billion committed to manufacturing in the last nine months; original £1 billion target achieved three months early.

- Supported over 33,000 first-time buyers in the first half of 2013; committed to helping around 60,000 in 2013.

- TSB returning to the high street in September; IPO preparation progressing.

Enhanced guidance reflects continued strong performance and business momentum

- Expect a Group net interest margin of close to 2.10 per cent for full year 2013.

- Expect to reach our non-core assets target of less than £70 billion by the end of 2013, 12 months ahead of plan, and to cease reporting non-core separately after full year 2013 results.

- Non-retail non-core assets expected to be less than £30 billion at end 2013, and less than £20 billion at end 2014.

- As guided in the first quarter results, now expect total costs to be around £9.6 billion in 2013, £200 million lower than previous guidance, and around £9.15 billion in 2014, assuming Verde IPO in mid 2014.

- Targeting an estimated pro forma fully loaded CRD IV core tier 1 ratio of above 10 per cent by end of 2013, a year ahead of previous guidance.

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UNDERLYING BASIS CONSOLIDATED INCOME STATEMENT

	Half-year to 30 June 2013 £ million	Half-year to 30 June 20121 £ million	Half-year to 31 Dec 20121 £ million

Net interest income	5,206	5,215	5,120
Other income	4,406	4,264	4,152
Insurance claims	(148)	(233)	(132)
Total underlying income	9,464	9,246	9,140
Total costs	(4,749)	(5,045)	(5,079)
Impairment	(1,813)	(3,157)	(2,540)
Underlying profit	2,902	1,044	1,521
Asset sales and volatile items	897	80	2,452
Simplification and Verde costs	(786)	(513)	(733)
Legacy items	(575)	(1,075)	(3,150)
Other items	(304)	8	(240)
Profit (loss) before tax – statutory	2,134	(456)	(150)
Taxation	(556)	(206)	(575)
Profit (loss) for the period	1,578	(662)	(725)
Earnings (loss) per share	2.2p	(1.0)p	(1.1)p
Banking net interest margin	2.01%	1.93%	1.93%
Average interest-earning assets	£517.0bn	£553.2bn	£533.5bn
Impairment charge as a % of average advances	0.69%	1.10%	0.95%
Return on risk-weighted assets	1.95%	0.61%	0.94%

BALANCE SHEET AND KEY RATIOS

	At 30 June 2013	At 31 Dec 2012	Change %
Loans and advances to customers excluding reverse repos2	£503.9bn	£512.1bn	(2)
Core loans and advances to customers excluding reverse repos2	£428.3bn	£425.3bn	1
Customer deposits excluding repos3	£430.6bn	£422.5bn	2
Loan to deposit ratio4	117%	121%	(4)pp
Core loan to deposit ratio4	100%	101%	(1)pp
Non-core assets	£82.6bn	£98.4bn	(16)
Total assets	£876.8bn	£934.2bn	(6)
Wholesale funding	£157.0bn	£169.6bn	(7)
Wholesale funding <1 year maturity	£50.7bn	£50.6bn	–
Risk-weighted assets5	£288.7bn	£310.3bn	(7)
Core tier 1 capital ratio5	13.7%	12.0%	1.7pp
Estimated pro forma fully loaded CRD IV core tier 1 ratio5	9.6%	8.1%	1.5pp
Fully loaded leverage ratio (including tier 1 instruments)5	4.2%	3.8%	0.4pp
Net tangible assets per share1	54.6p	51.9p	2.7p

1 Restated to reflect the implementation of IAS 19R and IFRS 10. See page 145.

2 Excludes reverse repos of £1.9 billion (31 December 2012: £5.1 billion).
3 Excludes repos of £3.0 billion (31 December 2012: £4.4 billion).
4 Loans and advances to customers excluding reverse repos divided by customer deposits excluding repos.
5 31 December 2012 comparatives have not been restated to reflect the implementation of IAS 19R and IFRS10.

UNDERLYING BASIS CONSOLIDATED INCOME STATEMENT – CORE AND NON-CORE

Core	Half-year to 30 June 2013 £ million	Half-year to 30 June 2012[1] £ million	Half-year to 31 Dec 2012[1] £ million
Net interest income	5,031	4,922	4,946
Other income	4,188	3,887	3,895
Insurance claims	(148)	(233)	(132)
Total underlying income	9,071	8,576	8,709
Total costs	(4,468)	(4,667)	(4,587)
Impairment	(907)	(978)	(941)
Underlying profit	3,696	2,931	3,181
Banking net interest margin	2.39%	2.32%	2.32%
Impairment charge as a % of average advances	0.42%	0.44%	0.44%
Return on risk-weighted assets	3.16%	2.44%	2.65%
Non-core			
Net interest income	175	293	174
Other income	218	377	257
Insurance claims	–	–	–
Total underlying income	393	670	431
Total costs	(281)	(378)	(492)
Impairment	(906)	(2,179)	(1,599)
Underlying loss	(794)	(1,887)	(1,660)
Banking net interest margin	0.41%	0.60%	0.47%
Impairment charge as a % of average advances	1.83%	3.33%	2.91%

BALANCE SHEET AND KEY RATIOS

Core	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Loans and advances to customers excluding reverse repos2	428.3	425.3	1
Total core assets	794.2	835.8	(5)

Customer deposits excluding repos3	427.8	419.1	2
Core loan to deposit ratio4	100%	101%	(1)pp
Risk-weighted assets	233.5	237.4	(2)
Non-core			
Loans and advances to customers	75.6	86.8	(13)
Loans and advances to banks	0.4	0.4	–
Debt securities held as loans and receivables	1.2	4.7	(74)
Available-for-sale financial assets	1.6	2.6	(38)
Other	3.8	3.9	(5)
Total non-core assets	82.6	98.4	(16)
Risk-weighted assets	55.2	72.9	(24)

1 Restated to reflect the implementation of IAS 19R and IFRS 10. See page 145.
2 Excludes reverse repos of £1.9 billion (31 December 2012: £5.1 billion).
3 Excludes repos of £3.0 billion (31 December 2012: £4.4 billion).
4 Loans and advances to customers excluding reverse repos divided by customer deposits excluding repos.

GROUP CHIEF EXECUTIVE'S STATEMENT

Accelerated progress in delivering our strategic plan

In the first half of 2013, we further accelerated the delivery of the strategic plan we set out in June 2011. As a result, although the economic and regulatory environment has been challenging, we have now delivered many of its key elements ahead of our expectations, and have exceeded a number of our original targets and set new targets for further improvement. We have substantially completed the strengthening of our balance sheet, and while further work remains to be done, we have made significant progress in reshaping and simplifying the Group for the benefit of customers and colleagues. At the same time, our investments to improve products and services are providing substantial benefits for our customers.

As a result of the work we have done over the last two years, our performance is not only much improved, but is now more stable and resilient. As a result, the Group is now better able to respond to changes in the economic and regulatory environment, and to absorb, without a material effect on the strength of our balance sheet, the further charges for legacy issues we decided it was appropriate to take in the period.

We are now seeing the benefits of the substantial advantages of being a low risk, highly efficient UK retail and commercial bank. Our strong UK franchise and operating model built around the customer means we are building products and services focused on their needs. We expect our focused, efficient and lower risk model to result in a low cost of equity, and to deliver strong, stable and sustainable returns for our shareholders well in excess of the cost of equity.

Significantly improved financial performance

We delivered a significantly improved financial performance in the first half of 2013. Group underlying profit increased by 178 per cent to £2,902 million when compared to the first half of 2012. Group net interest margin increased by 8 basis points to 2.01 per cent, costs reduced by 6 per cent to £4,749 million and the impairment charge reduced by 43 per cent to £1,813 million. As a result, the Group return on risk-weighted assets improved to 1.95 per cent from 0.61 per cent.

We also further improved profitability and returns in our core business, with core underlying profit increasing by 26 per cent to £3,696 million, and core return on risk-weighted assets increasing by 72 basis points to 3.16 per cent. Importantly, and in line with our focus on supporting the UK economy, the core loan book returned to growth in the first quarter and continued into the second quarter, such that core loans and advances increased by £3.0 billion, or 1 per cent, in the first half. Together with an increase in net interest margin of 7 basis points to 2.39 per cent, this helped drive an increase of 6 per cent in core income, while we reduced costs by a further 4 per cent to £4,468 million, and impairments by 7 per cent to £907 million.

Group statutory profit before tax was £2,134 million, a significant improvement on the loss of £456 million in the first half of 2012, demonstrating the resilience of the Group's performance as it absorbed expected Simplification and Verde build expenses and a further charge for legacy items of £575 million.

Strengthening the Group's balance sheet, consistent with regulatory requirements announced in the first half

Much of the work required to strengthen our balance sheet, through improving our funding, liquidity and capital positions, is now complete. At the same time, we now have greater certainty on the regulatory environment following announcements on the capital framework by the UK's Prudential Regulation Authority (PRA) and by the European Commission on CRD IV capital requirements.

As a result, we remain confident in our capital position, and continue to expect to meet the PRA's additional capital requirements, announced on 20 June, without recourse to further equity issuance or the utilisation of additional contingent capital securities.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

A key element in strengthening the balance sheet has been the improvement we have made in our capital position. The fully loaded core tier 1 ratio now stands at 9.6 per cent, and are targeting it to be above 10 per cent by the end of 2013, a year ahead of expectations.

We have transformed our funding position, with the core loan to deposit ratio now at 100 per cent, from 114 per cent at the time of the strategic review, with our customer deposit base increased by 9 per cent in the last two years. Over this time we have reduced our wholesale funding requirement by over £135 billion, or around half, and have materially improved its maturity profile, with short-term funding now representing less than one-third of total wholesale funding, from over half at the time of the review. At the same time, we have maintained a strong liquidity position.

Together, these improvements have resulted in a much more robust and sustainable balance sheet position, which has been one of the catalysts for the substantial reduction in the Group's funding cost over the period. We expect this reduction will over time allow us to deliver our net interest margin guidance and stronger, and more sustainable, returns to shareholders.

As a consequence of the significant progress made in strengthening the balance sheet we now expect to commence discussions with our regulators in the second half of this year on the timetable and conditions for dividend payments.

Reshaping our business portfolio

The improvement in our capital ratios has been driven by capital generation in our core franchise, management actions, and the active reshaping of our business portfolio, including the very substantial reduction of non-core assets in a capital accretive manner. We have now reduced non-core assets by nearly £80 billion, or around half, to £83 billion since June 2011, while releasing £3.4 billion of capital, with the reduction of £17 billion in the first 6 months of the year releasing £1.6 billion of capital.

At the same time, in line with our UK-focused strategy, we have reduced our international presence, and, 18 months ahead of our original expectations, have now exceeded our original target for 2014 of a reduction to 15 countries or fewer, with exits completed or announced from 17 countries. We now expect to reduce further our international presence to under 10 countries by the end of 2014.

Simplifying the Group to improve efficiency and service

Our Simplification programme is central to the successful delivery of our strategy, both in terms of driving further cost savings and efficiencies across the Group, but also in simultaneously improving the service we deliver to our customers.

We have largely completed our programme to remove management layers from our organisation and increase spans of control, and made strong progress in simplifying the Group. Notable achievements include the transfer of 1.7 million mortgage accounts on to a single mortgage system, the implementation of an integrated online Group wide training and development solution and a 39 per cent reduction in legal entities. In addition we have reduced the number of suppliers by 47 per cent since the start of the programme to less than 9,600 and we are now targeting 8,500 by end 2014.

In 2012, we met our target cost base of £10 billion two years ahead of schedule, and in this half-year have further upgraded our guidance such that we now expect a Group cost base of around £9.6 billion in 2013, and around £9.15 billion in 2014, assuming a half-year of costs from the Verde business in 2014.

GROUP CHIEF EXECUTIVE’S STATEMENT (continued)

These cost reductions have been achieved while delivering a substantial improvement in customer satisfaction and reduction in complaints, driven by faster, more automated and simpler processes, focused on the customer. We have now achieved our target reduction to 1 customer banking complaint per 1,000 accounts (excluding PPI), more than a year ahead of schedule.

Investing in growing our core franchise and supporting our customers and the UK economy

At the same time, we have been strengthening the Group’s capacity to support and service our customers and enable growth by investing a proportion of the savings from the Simplification programme in our core franchise.

In Retail, we have maintained our commitment to our branch network, making no closures on a net basis over the period, while refurbishing over 1,000 branches since the strategic review, and extending opening hours. We have also further developed our leading digital presence, reaching, in the first half of this year, the milestones of over 10 million active online users, and now having 3.7 million mobile users at the end of June.

We have maintained our position as the largest lender to UK households, supporting the UK economy and the housing market through our focus on first-time buyers by our commitment to lend over £6.5 billion to help around 60,000 customers purchase their first home in 2013, while attracting depositors through products such as our Halifax ISA Promise.

We are supportive of the UK government’s Help to Buy scheme, which aims to increase the availability of mortgages for buyers with small deposits, and which will be available from January 2014 on both new build and previously owned properties up to £600,000 in value for first-time buyers and existing home owners. We are working closely with the government on its detailed implementation and believe this will help to increase liquidity in the UK housing market while offering support to house prices, and to the wider economy through increased activity in the construction sector.

In Commercial Banking, our client-centric approach has again been recognised by the award for the ninth year in a row of the Business Bank of the Year at the FD's Excellence Awards. Consistent with our strategy to improve Commercial Banking's returns, we continue to invest in product capability, notably in Transaction Banking where in the first half we launched a new mobile card solution for our small business clients, and expanded the range of currencies in which our customers can transact. The further development of our debt capital markets franchise is reflected in maintaining a top four position in Investment Grade Corporate Sterling debt issuance and in becoming a market maker for retail bond investors on the London Stock Exchange.

Our support for our small business clients, and therefore for the UK economic recovery in which they play a key role, has been further underlined by our growth in lending to them, and since the strategic review we have consistently increased our lending in a declining market. In the last twelve months we have increased our SME lending by 5 per cent against a market contraction of 3 per cent. We have also continued to support our corporate clients and have committed over £1 billion to UK manufacturers in the last nine months, delivering our £1 billion target three months ahead of plan. Our utilisation of the UK Government's Funding for Lending scheme has further underlined our support for the UK economic recovery, and we remain committed to passing benefits of this low cost funding on to our customers. We have now committed over £24 billion in gross funds under the scheme.

In Wealth, where we created a single business, we are investing in improving client service. In the first half of 2013, our focus has been on embedding the single Wealth business to generate synergies across the UK and the Channel Islands while delivering faster advice and improved support for customers through our new Private Banking client centre, which will be reinforced in the second half by new Customer Relationship Management technology. In Asset Finance, we are now well positioned for growth, given our strong market positions and the development of new technology and customer-centric propositions.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

In Insurance, we continue to see strong growth in Corporate Pensions, reflecting the strength of our proposition and the strong pipeline generated in the run-up to the implementation of the Retail Distribution Review, and have now launched our enhanced annuities product as a key step to expanding our participation in the growing annuity market. We see significant potential in serving the retirement needs of our retail bank customers and the growing direct market. We are investing in the capability of our direct channel with a focus on meeting the needs of customers who may no longer have access to independent financial advice, following the implementation of the Retail Distribution Review. Similarly, we are committed to helping meet the UK population's protection gap. We are developing our protection proposition for the intermediary channel to complement our market leading Bancassurance protection proposition.

As the UK's largest retail and commercial bank we are well placed to help unlock the potential of the families, businesses and communities we serve and make a significant contribution to the future strength and prosperity of the UK. Being the best bank for customers, alongside a focus on operating sustainably and responsibly, underpins our approach to business.

That is why we have focused on addressing customer legacy issues, such as PPI, quickly and fairly. We were the first bank to break from the legal action over PPI, and we did this because it was the right thing to do for our customers. We are disappointed by the Financial Conduct Authority's (FCA) decision to instigate an Enforcement investigation with regard to issues on PPI, which have been written about in the press. We will work with the FCA to resolve the issues and ensure our customers' complaints are addressed efficiently and fairly.

Only by focusing on customers' needs and addressing those needs can we expect to deliver benefit to our stakeholders. We recognise the need to rebuild trust with our customers and our customer-focused strategy is entirely aligned to this. The recently published Salz report also provides the industry with a set of standards against which the industry's approach will be assessed and we are confident of surpassing all these standards.

Guidance and outlook

Our strong momentum is reflected in the significant upgrades to our guidance which we have announced in this half-year. We now expect to improve our Group net interest margin for the full year 2013 to close to 2.10 per cent, against our previous guidance of an improvement to around 1.98 per cent. As announced in our first quarter 2013 results, we expect Group total costs to reduce to around £9.6 billion in 2013 and to around £9.15 billion in 2014 assuming Verde IPO in mid 2014, representing an improvement of nearly £1 billion against the guidance we gave in the strategic review. We expect a further improvement in asset quality to drive a substantial reduction in the 2013 impairment charge with our non-core assets to reduce to less than £70 billion, almost two years ahead of our original plan. We also expect our non-retail non-core assets to be less than £30 billion by the end of this year and less than £20 billion at the end of 2014.

We also expect to further strengthen the Group's balance sheet and reduce risk, and we are now targeting a fully loaded core tier 1 ratio of above 10 per cent at the end of this year.

We have made substantial progress on the delivery of our strategic plan, and have significantly improved the Group's performance, balance sheet strength and resilience while continuing to deal with legacy issues. While the UK economy remains subdued and we await further clarification on the detail of regulatory implementation, including on capital and ringfencing, we expect to deliver further progress in the remainder of 2013 and beyond.

António Horta-Osório
Group Chief Executive

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE

Overview

In the first half of 2013, the profitability of the Group has improved significantly on both a statutory and underlying basis. This improvement was driven by income growth, greater than expected net interest margin expansion, further cost reductions and a significantly lower impairment charge. We improved returns in our core business and continued to grow the core loan book in the second quarter, having returned it to growth in the first quarter. We further reduced the non-core asset portfolio in a capital-accretive way, and losses from this portfolio have declined significantly. We substantially enhanced the Group's capital position and our liquidity position remains strong.

Significantly improved Group underlying and statutory profitability

Group underlying profit before tax increased by £1,858 million to £2,902 million compared to the first half of 2012. Underlying income grew by 2 per cent to £9,464 million, including a £433 million gain relating to the sales of shares in St. James's Place. Excluding St. James's Place (both the effect of the gain on sale and deconsolidation from the end of the first quarter), total underlying income was in line when compared with the previous two half years. Group net interest margin increased more than expected by 8 basis points to 2.01 per cent, mainly driven by improved deposit pricing. Total costs continue to be tightly controlled and fell by 6 per cent to £4,749 million. The impairment charge improved by 43 per cent to £1,813 million was mainly driven by the reduction in non-core assets and the sustained improvement in Group asset quality.

Group statutory profit before tax increased by £2,590 million to £2,134 million, driven by improved underlying profit, increased gains from asset sales, positive insurance volatility and a lower provision for legacy issues of £575 million compared to a £1,075 million charge in the first half of 2012.

Core underlying profit improved substantially to £3,696 million from £2,931 million in the first half of 2012 with the return on risk-weighted assets improving to 3.16 per cent from 2.44 per cent. Excluding the effects of the sales of shares in St. James's Place the return on risk-weighted assets was 2.74 per cent. Core underlying income increased 6 per cent to £9,071 million, and by 1 per cent excluding the St. James's Place effects. The core net interest margin also increased 7 basis points to 2.39 per cent.

Core loans and advances grew by £3.0 billion to £428.3 billion over the course of the half-year, with the increase in Commercial Banking and Wealth, Asset Finance and International, partially offset by a reduction in the Retail secured book, which we continue to expect to return to growth in the second half of this year. Core costs decreased by 4 per cent driven by further savings from the Simplification programme and the deconsolidation of St. James's Place. The core impairment charge decreased 7 per cent to £907 million with the reduction primarily attributable to lower Retail impairments.

The non-core underlying loss reduced 58 per cent to £794 million year-on-year, largely as result of a 58 per cent reduction in the impairment charge to £906 million.

Strong balance sheet with substantially enhanced capital position

We have now substantially completed our work to transform the balance sheet, strengthening our funding, liquidity and capital position. The Group's funding requirement has reduced by £20 billion since 31 December 2012, largely as a result of the further £15.8 billion reduction in non-core assets (£17.4 billion on a constant exchange basis). At the same time we have continued to grow deposits. This has enabled us to reduce wholesale funding by £12.6 billion and to repay the full amount of the Long Term Refinancing Operation funding from the European Central Bank of €13.5 billion ahead of schedule.

The Group has further strengthened its capital ratios with the estimated fully loaded CRD IV core tier 1 ratio increasing to 9.6 per cent from 8.1 per cent at 31 December 2012 and the core tier 1 ratio improving to 13.7 per cent.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Total underlying income

	Half-year to 30 June 2013 £ million	Half-year to 30 June 2012 £ million	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £ million	Change since 31 Dec 2012 %
Net interest income	5,205	5,213	–	5,118	2
Other income	3,877	4,126	(6)	3,965	(2)
Insurance claims	(148)	(233)	36	(132)	(12)
	8,934	9,106	(2)	8,951	–
St. James's Place1	530	140		189	
Total underlying income	9,464	9,246	2	9,140	4
Banking net interest margin	2.01%	1.93%	8bp	1.93%	8bp
Average interest-earning banking assets	£517.0bn	£553.2bn	(7)	£533.5bn	(3)
Loan to deposit ratio	117%	126%	(9)pp	121%	(4)pp

1 See detail on page 42.

Group underlying income increased by 2 per cent to £9,464 million reflecting the gain on the sales of shares in St. James's Place. Excluding St. James's Place, underlying income decreased by 2 per cent compared to the first half of 2012, largely driven by the 41 per cent reduction in non-core income.

Group net interest income was stable with the impact of the 7 per cent reduction in average interest-earning assets, which was principally driven by further non-core reductions, substantially offset by the improvement in net interest margin to 2.01 per cent, significantly ahead of expectations and our full year guidance. The improvement in net interest margin was driven by lower deposit pricing, better than expected asset margin performance, an improved funding mix, and the benefits of repositioning our structural hedge, following recent increases in interest rates. These factors more than offset the negative effects of 6 basis points on net interest margin from the repositioning of our government bond portfolio. As a result we now expect our Group net interest margin to be close to 2.10 per cent for the full year.

Excluding St. James's Place, other income was 6 per cent lower principally reflecting the reduced level of income from the non-core business. Insurance claims were significantly lower reflecting the benign weather in 2013 relative to 2012.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Core underlying income

	Half-year to 30 June 2013 £ million	Half-year to 30 June 2012 £ million	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £ million	Change since 31 Dec 2012 %
Net interest income	5,030	4,920	2	4,944	2
Other income	3,659	3,749	(2)	3,708	(1)
Insurance claims	(148)	(233)	36	(132)	(12)
	8,541	8,436	1	8,520	–
St. James's Place[1]	530	140		189	
Total underlying income	9,071	8,576	6	8,709	4
Banking net interest margin	2.39%	2.32%	7bp	2.32%	7bp
Average interest-earning banking assets	£418.8bn	£426.5bn	(2)	£421.0bn	(1)
Loan to deposit ratio	100%	103%	(3)pp	101%	(1)pp

1 See detail on page 42.

Core net interest income strengthened by 2 per cent compared to the second half of 2012 which was the third sequential half-year improvement. The impact of the 2 per cent reduction in average interest-earning assets over the year was more than offset by the improved net interest margin. Excluding St. James's Place, core other income was in line with the previous two halves.

Core loans and advances continued to grow in the second quarter after returning to growth in the first quarter. The increase in Commercial Banking and Wealth, Asset Finance and International was partially offset by a reduction in the Retail secured book, which we continue to expect to return to growth in the second half of this year.

Total costs

	Half-year to 30 June 2013 £ million	Half-year to 30 June 2012 £ million	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £ million	Change since 31 Dec 2012 %
Core	4,468	4,667	4	4,587	3
Non-core	281	378	26	492	43
Total costs	4,749	5,045	6	5,079	6
Simplification savings annual run-rate	1,160	512	127	847	37

Total costs decreased 6 per cent to £4,749 million compared to the same period in 2012. Core total costs reduced by 4 per cent to £4,468 million driven by benefits of the Simplification programme, strong cost management and the benefit from the deconsolidation of St. James's Place. Costs attributable to St. James's Place were £85 million in the first half of 2012 falling to £44 million in the first half of 2013 as the business was deconsolidated at the end of the first quarter. The strong progress on cost reductions was after inflationary pressures and increased investment in the business. Non-core costs fell due to the significant reduction in non-core assets.

At 30 June 2013, we had realised annual run-rate savings of £1,160 million from our initiatives to simplify the Group. This is an increase of £313 million since 31 December 2012 and £648 million since 30 June 2012, with the Simplification programme contributing cost savings of £619 million in the six months to 30 June 2013. We remain confident of achieving our target of £1.9 billion of annual run-rate cost savings by the end of 2014.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Impairment

	Half-year to 30 June 2013 £ million	Half-year to 30 June 2012 £ million	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £ million	Change since 31 Dec 2012 %
Core	907	978	7	941	4
Non-core	906	2,179	58	1,599	43
Total impairment	1,813	3,157	43	2,540	29
Impairment charge as a % of average advances					
Core	0.42%	0.44%	(2)bp	0.44%	(2)bp
Non-core	1.83%	3.33%	(150)bp	2.91%	(108)bp
Total impairment	0.69%	1.10%	(41)bp	0.95%	(26)bp

The impairment charge reduced 43 per cent to £1,813 million, with continued strong management of impaired loans and a further reduction in non-core leading to a further significant improvement in the quality of the portfolio. Reductions were seen across both core and non-core portfolios and the non-core impairment charge was less than the core impairment charge for the first time. The impairment charge as a percentage of average advances reduced by 41 basis points to 0.69 per cent, close to our 2014 target for the Group of 50 to 60 basis points.

Core impairment

The 7 per cent reduction in core impairment charge was primarily attributable to lower Retail impairments. This was partly offset by a higher charge in Commercial Banking, which benefitted from releases during the first half of 2012 which were not repeated in 2013. The impairment charge as a percentage of average advances in the core business remains low at 0.42 per cent.

Non-core impairment

The non-core impairment charge decreased 58 per cent to £906 million, driven by substantial reductions in the Commercial Banking and International portfolios. The 43 per cent decrease compared with the second half of 2012 was driven by reductions in Commercial Banking impairments.

Impaired loans

	As at 30 June 2013 %	As at 30 June 2012 %	Change since 30 June 2012	As at 31 Dec 2012 %	Change since 31 Dec 2012
Impaired loans as a % of closing advances	7.7	9.4	(1.7)pp	8.6	(0.9)pp
Provisions as a % of impaired loans1	51.1	48.7	2.4pp	48.2	2.9pp

1 Excludes loans in recoveries.

Impaired loans as a percentage of closing advances reduced to 7.7 per cent, from 8.6 per cent at 31 December 2012, driven by improvements in Commercial Banking with reductions in both the core and non-core books. Provisions as a percentage of impaired loans increased from 48.2 per cent at 31 December 2012 to 51.1 per cent, with increases across both the core and non-core books.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Statutory profit

Statutory profit before tax was £2,134 million compared to a loss of £456 million in the first half of 2012. Gains on the sale of our government securities portfolio of £780 million and positive volatility arising in the insurance business of £485 million were more than offset by further Simplification and Verde costs of £786 million, further charges relating to legacy business of £500 million for PPI and £75 million for claims relating to policies issued by Clerical Medical Insurance Group Limited in Germany, and other items. Further detail on the reconciliation of underlying to statutory results is included on page 41.

	Half-year to 30 June 2013 £ million	Half-year to 30 June 20121 £ million	Change since 30 June 2012 %	Half-year to 31 Dec 20121 £ million	Change since 31 Dec 2012 %
Underlying profit	2,902	1,044	178	1,521	91
Asset sales and volatile items:					
Asset sales	775	585		1,962	
Liability management	(97)	168		(397)	
Own debt volatility	(166)	(387)		117	
Other volatile items	(136)	(422)		(56)	
Volatility arising in insurance businesses	485	(21)		333	
Fair value unwind	36	157		493	

	897	80	2,452
Simplification and Verde costs	(786)	(513)	(733)
Legacy items:			
Payment protection insurance provision	(500)	(1,075)	(2,500)
Other regulatory provisions	(75)	–	(650)
	(575)	(1,075)	(3,150)
Other items:			
Past service pensions (charge) credit	(104)	250	–
Amortisation of purchased intangibles	(200)	(242)	(240)
	(304)	8	(240)
Profit (loss) before tax – statutory	2,134	(456)	(150)
Taxation	(556)	(206)	(575)
Profit (loss) for the period	1,578	(662)	(725)
Earnings (loss) per share	2.2p	(1.0)p	(1.1)p

1 Restated to reflect the implementation of IAS 19R and IFRS 10. See page 145.

Asset sales

Asset sales included gains on the sale of government securities of £780 million, and a net loss of £5 million (after related fair value unwind of £1,345 million), from the reduction of non-core assets. This reduction included the sale of our Spanish retail banking operations and a portfolio of US Retail Mortgage Backed Securities (US RMBS).

Volatility arising in insurance businesses

The Group's statutory result before tax is affected by insurance volatility, caused by movements in financial markets, and policyholder interests volatility, which primarily reflects the gross up of policyholder tax included in the Group tax charge. The statutory result included £485 million of positive insurance and policyholder interests volatility (30 June 2012: negative volatility of £21 million), reflecting the rise in equity markets in the period.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Simplification and Verde costs

The costs of the Simplification programme were £409 million, with a total of £1,270 million spent to date. These costs related to severance, IT and business costs of implementation. A further 2,740 FTE role reductions were announced in the first half of 2013, taking the total to 9,730 since the start of the programme. Simplification of our business operations continues through reduction in management layers and increasing spans of control as well as restructuring business units.

The Group continues to progress the EC mandated business disposal (Verde) through an Initial Public Offering (IPO) which remains subject to regulatory and EC approval. We continue to target an IPO in mid-2014. Detailed plans are in place to rebrand the business as TSB which will be visible on the high street from September this year, at which point the TSB Bank will operate as a separate business within Lloyds Banking Group and the Lloyds Bank brand will be relaunched. Costs relating to Verde were £377 million and from inception to the end of 30 June 2013 totalled £1,159 million.

PPI

The volume of PPI complaints continues to fall in line with expectations, with average monthly complaint volumes down 12 per cent on the first quarter and weekly complaints averaging approximately 12,500 in the second quarter of 2013. Monthly complaint volumes were on average 40 per cent below those in the second half of 2012.

Costs in the second quarter, however, continued to be higher than expected due to the acceleration of the settlement of cases currently held with the Financial Ombudsman Service, VAT ruling, and slightly higher uphold and settlement rates. We have also revised our estimate of future administration costs. We are therefore increasing our provision by £450 million in relation to these items, with around £250 million of this increase relating to redress costs and about £200 million to additional administration costs.

We have also been informed that we have been referred to the Enforcement Team of the Financial Conduct Authority for investigation over our governance of a third party supplier and failings in the PPI complaint handling process. We have made a provision of £50 million with regards to the likely administration costs of this exercise.

These provisions bring the total amount provided for PPI to £7,275 million (of which £1,510 million relates to administration costs). The total amount provided for PPI represents our best estimate of likely costs, and a number of risks and uncertainties remain, in particular pro-active and reactive complaint volumes, uphold rates, average redress costs, and the outcome of the Enforcement Team investigation. The cost of these factors could differ materially from our estimates, which could result in a further provision being required. Sensitivities to these factors are set out on page 132.

As at 30 June 2013, £1,650 million of the total provision remained unutilised, and total costs incurred in the six months to 30 June 2013 were £1,280 million, including approximately £380 million of administration costs.

Other items
The Group recognised a charge of £104 million as a result of changes to early retirement and commutation factors in two of its principal defined benefit schemes. In the first half of 2012, other items included a credit related to a change in policy in respect of discretionary pension increases.

Taxation
The tax charge for the first six months of 2013 was £556 million. This reflects a higher effective tax rate than the UK statutory rate primarily due to a policyholder tax charge, which is partially offset by exempt gains or gains covered by capital losses.

GROUP FINANCE DIRECTOR’S REVIEW OF FINANCIAL PERFORMANCE (continued)

Balance sheet
We further strengthened and de-risked the balance sheet in the first half, by increasing our capital and leverage ratios, maintaining a strong liquidity position, further reducing non-core assets and continuing to reduce wholesale funding and grow customer deposits.

We have achieved a further significant reduction in non-core assets of £17.4 billion or £15.8 billion including currency effects, to £82.6 billion in the first half. The reductions included £4.5 billion in treasury assets and £4.0 billion in UK commercial real estate, £1.4 billion from the sale of our Spanish retail operations, as well as reductions in Ireland, Asset Finance, Acquisition Finance and Shipping.

Funding and liquidity
The continued growth in customer deposits combined with the reduction of non-core assets has enabled a further reduction in wholesale funding and the full repayment of our Long Term Refinancing Operation funding from the European Central Bank, ahead of schedule.

Customer deposits increased 2 per cent, primarily driven by higher deposits in Retail and growth in Transaction Banking in Commercial Banking. As a result, the Group loan to deposit ratio has improved to 117 per cent from 121 per cent at 31 December 2012. The core loan to deposit ratio improved to 100 per cent from 101 per cent at 31 December 2012.

Wholesale funding has reduced by 7 per cent since 31 December 2012 to £157.0 billion while short-term wholesale funding remained stable at £50.7 billion (31 December 2012: £50.6 billion). Wholesale funding with a maturity of less than one year at 30 June 2013 was 32.3 per cent, compared to 29.8 per cent at 31 December 2012 reflecting the lower overall level of wholesale funding.

	At 30 June 2013	At 31 Dec 2012[1]	Change %
Funded assets	£520.2bn	£538.7bn	(3)
Non-core assets	£82.6bn	£98.4bn	(16)
Customer deposits[2]	£430.6bn	£422.5bn	2
Wholesale funding	£157.0bn	£169.6bn	(7)
Wholesale funding <1 year maturity	£50.7bn	£50.6bn	–
Of which money-market funding <1 year maturity	£31.3bn	£31.0bn	1
Wholesale funding <1 year maturity as a % of total wholesale funding	32.3%	29.8%	2.5pp
Loan to deposit ratio	117%	121%	(4)pp
Core loan to deposit ratio	100%	101%	(1)pp
Primary liquid assets	£86.5bn	£87.6bn	(1)
Secondary liquidity	£128.0bn	£117.1bn	9

1 Restated for IAS 19R and IFRS 10.
2 Excluding repos of £3.0 billion (31 December 2012: £4.4 billion) (all core).

The Group's liquidity position remains strong, with primary liquid assets of £86.5 billion at 30 June 2013 (31 December 2012: £87.6 billion). Primary liquid assets represent approximately 2.7 times our money-market funding and are approximately 1.7 times our wholesale funding with a maturity of less than one year, providing a substantial buffer in the event of market dislocation. In addition to primary liquid assets, we have significant secondary liquidity holdings of £128.0 billion. Our total liquid assets represent approximately 4.2 times our wholesale funding with a maturity of less than one year.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Risk-weighted assets and capital ratios

	At 30 June 2013	At 31 Dec 2012[1]	Change %
Risk-weighted assets	£288.7bn	£310.3bn	(7)
Core risk-weighted assets	£233.5bn	£237.4bn	(2)
Non-core risk-weighted assets	£55.2bn	£72.9bn	(24)
Core tier 1 capital ratio	13.7%	12.0%	1.7pp
Tier 1 capital ratio	14.2%	13.8%	0.4pp
Total capital ratio	20.4%	17.3%	3.1pp
Estimated pro forma fully loaded CRD IV risk-weighted assets	£299.6bn	£321.1bn	(7)
Estimated pro forma fully loaded CRD IV core tier 1 ratio	9.6%	8.1%	1.5pp

Estimated pro forma fully loaded CRD IV leverage ratio	4.2%	3.8%	0.4pp

[1] 31 December 2012 comparatives have not been restated to reflect the implementation of IAS 19R and IFRS10.

The Group's estimated pro forma fully loaded CRD IV core tier 1 ratio increased to 9.6 per cent principally driven by capital generation in our core business, the decrease in risk-weighted assets from non-core asset reductions and actions such as the St. James's Place share sales, US RMBS disposal and the £1.6 billion dividend paid by the insurance business to the Group. These were partially offset by the effects of changes to pension accounting and other statutory items.

Our estimated ratio reflects the Group's current interpretation of the final CRD IV rules published on 27 June 2013. Given our progress on capital in the first half of the year, we now anticipate our estimated pro forma fully loaded CRD IV core tier 1 ratio to be above 10 per cent by the end of 2013.

The Group's core tier 1 capital ratio increased to 13.7 per cent from 12.0 per cent at the end of December 2012.

The Group's total capital ratio increased to 20.4 per cent, with £27.4 billion of tier 1 and tier 2 securities contributing a net £19.3 billion to the capital base. The transition to CRD IV is expected to reduce the volume of deductions from non-equity capital arising from the Group's insurance operations and therefore to release a material proportion of tier 1 and tier 2 capital, helping the Group meet future total capital requirements.

The Group's estimated fully loaded leverage ratio including grandfathered tier 1 capital increased to 4.2 per cent from 3.8 per cent at the end of 2012 and to 3.5 per cent from 3.1 per cent excluding grandfathered tier 1. Both of these ratios are in excess of the Basel Committee's proposed minimum of 3 per cent.

The Group has a strong capital position and continues to expect to meet the PRA's requirement of £8.6 billion additional capital announced in June without recourse to further equity issuance or the utilisation of additional contingent capital securities.

Conclusion

The Group has continued to deliver strong core returns with growth in core lending, underlying income and net interest margin, and reductions in costs and impairments. The continued progress we have made in reducing risk in the balance sheet and strengthening the Group's capital ratios leaves us well positioned to continue growing our core business as we support the UK economic recovery.

George Culmer
Group Finance Director

UNDERLYING BASIS SEGMENTAL ANALYSIS

Half-year to 30 June 2013	Retail	Commercial Banking	Wealth, Asset Finance and Int'l	Insurance	Group Operations and Central items	Group
	£m	£m	£m	£m	£m	£m
Net interest income	3,590	1,196	431	(45)	34	5,206

Other income	728	1,426	951	1,111	190	4,406
Insurance claims	–	–	–	(148)	–	(148)
Total underlying income	4,318	2,622	1,382	918	224	9,464
Total costs	(2,046)	(1,261)	(1,033)	(354)	(55)	(4,749)
Impairment	(636)	(727)	(450)	–	–	(1,813)
Underlying profit (loss)	1,636	634	(101)	564	169	2,902
Banking net interest margin	2.14%	1.89%	2.01%			2.01%
Impairment charge as a % of average advances	0.37%	1.03%	2.10%			0.69%
Return on risk-weighted assets	3.51%	0.81%	(0.59)%			1.95%
Key balance sheet items At 30 June 2013	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excluding reverse repos	340.5	132.1	30.3		1.0	503.9
Customer deposits excluding repos	263.2	118.4	48.9		0.1	430.6
Total customer balances	603.7	250.5	79.2		1.1	934.5
Risk-weighted assets	91.6	150.5	32.2		14.4	288.7

UNDERLYING BASIS SEGMENTAL ANALYSIS (continued)

Half-year to 30 June 2012	Retail1 £m	Commercial Banking1 £m	Wealth, Asset Finance and Int'l1 £m	Insurance £m	Group Operations and Central items1 £m	Group £m
Net interest income	3,553	1,111	415	(37)	173	5,215
Other income	766	1,496	1,006	1,156	(160)	4,264
Insurance claims	–	–	–	(233)	–	(233)
Total underlying income	4,319	2,607	1,421	886	13	9,246
Total costs	(2,089)	(1,282)	(1,136)	(384)	(154)	(5,045)
Impairment	(758)	(1,408)	(991)	–	–	(3,157)
Underlying profit (loss)	1,472	(83)	(706)	502	(141)	1,044
Banking net interest margin	2.05%	1.58%	1.62%			1.93%
Impairment charge as a % of average advances	0.43%	1.61%	3.99%			1.10%
Return on risk-weighted assets	2.92%	(0.09)%	(3.38)%			0.61%
Key balance sheet items At 30 June 2012	£bn	£bn	£bn	£bn	£bn	£bn

Loans and advances to customers excluding reverse repos	347.0	145.1	36.3		0.2	528.6
Customer deposits excluding repos	254.7	115.1	49.3		–	419.1
Total customer balances	601.7	260.2	85.6		0.2	947.7
Risk-weighted assets	100.2	179.5	40.1		12.7	332.5

1 Restated.

Half-year to 31 December 2012	£m	£m	£m	£m	£m	£m
Net interest income	3,642	1,095	384	(41)	40	5,120
Other income	696	1,436	1,037	1,138	(155)	4,152
Insurance claims	–	–	–	(132)	–	(132)
Total underlying income	4,338	2,531	1,421	965	(115)	9,140
Total costs	(2,110)	(1,234)	(1,155)	(360)	(220)	(5,079)
Impairment	(512)	(1,538)	(489)	–	(1)	(2,540)
Underlying profit (loss)	1,716	(241)	(223)	605	(336)	1,521
Banking net interest margin	2.11%	1.59%	1.69%			1.93%
Impairment charge as a % of average advances	0.29%	2.06%	2.16%			0.95%
Return on risk-weighted assets	3.50%	(0.28)%	(1.16)%			0.94%
Key balance sheet items At 31 December 2012	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excluding reverse repos	343.3	134.7	33.4		0.7	512.1
Customer deposits excluding repos	260.8	109.7	51.9		0.1	422.5
Total customer balances	604.1	244.4	85.3		0.8	934.6
Risk-weighted assets	95.5	165.2	36.2		13.4	310.3

CORE BUSINESS

Half-year to 30 June 2013	Retail	Commercial Banking	Wealth, Asset Finance and Int’l	Insurance	Group Operations and Central items	Group
	£m	£m	£m	£m	£m	£m

Net interest income	3,581	1,173	246	(49)	80	5,031
Other income	722	1,262	918	1,096	190	4,188
Insurance claims	–	–	–	(148)	–	(148)
Total underlying income	4,303	2,435	1,164	899	270	9,071
Total costs	(2,044)	(1,179)	(853)	(337)	(55)	(4,468)
Impairment	(590)	(302)	(15)	–	–	(907)
Underlying profit	1,669	954	296	562	215	3,696
Banking net interest margin	2.31%	2.48%	7.78%			2.39%
Impairment charge as a % of average advances	0.37%	0.57%	0.50%			0.42%
Return on risk-weighted assets	3.95%	1.51%	6.24%			3.16%
Key balance sheet items At 30 June 2013	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excluding reverse repos	315.4	106.3	5.6		1.0	428.3
Customer deposits excluding repos	263.2	115.8	48.7		0.1	427.8
Total customer balances	578.6	222.1	54.3		1.1	856.1
Risk-weighted assets	83.0	126.4	9.7		14.4	233.5

CORE BUSINESS (continued)

Half-year to 30 June 2012	Retail1	Commercial Banking1	Wealth, Asset Finance and Int'l1	Insurance	Group Operations and Central items1	Group
	£m	£m	£m	£m	£m	£m
Net interest income	3,522	1,114	154	(41)	173	4,922
Other income	757	1,206	958	1,126	(160)	3,887
Insurance claims	–	–	–	(233)	–	(233)
Total underlying income	4,279	2,320	1,112	852	13	8,576
Total costs	(2,086)	(1,162)	(900)	(365)	(154)	(4,667)
Impairment	(735)	(232)	(11)	–	–	(978)
Underlying profit (loss)	1,458	926	201	487	(141)	2,931
Banking net interest margin	2.21%	2.21%	5.69%			2.32%
Impairment charge as a % of average advances	0.45%	0.40%	0.36%			0.44%
Return on risk-weighted assets	3.22%	1.45%	4.46%			2.44%
Key balance sheet items At 30 June 2012	£bn	£bn	£bn	£bn	£bn	£bn

Loans and advances to customers excluding reverse repos	320.1	103.5	4.7		0.2	428.5
Customer deposits excluding repos	254.7	112.6	48.6		–	415.9
Total customer balances	574.8	216.1	53.3		0.2	844.4
Risk-weighted assets	90.4	127.4	8.6		12.7	239.1

1 Restated.

Half-year to 31 December 2012	£m	£m	£m	£m	£m	£m
Net interest income	3,641	1,128	158	(46)	65	4,946
Other income	689	1,236	1,006	1,119	(155)	3,895
Insurance claims	–	–	–	(132)	–	(132)
Total underlying income	4,330	2,364	1,164	941	(90)	8,709
Total costs	(2,107)	(1,070)	(895)	(345)	(170)	(4,587)
Impairment	(457)	(472)	(11)	–	(1)	(941)
Underlying profit (loss)	1,766	822	258	596	(261)	3,181
Banking net interest margin	2.29%	2.22%	6.09%			2.32%
Impairment charge as a % of average advances	0.28%	0.93%	0.55%			0.44%
Return on risk-weighted assets	3.98%	1.27%	5.76%			2.65%
Key balance sheet items At 31 December 2012						
Loans and advances to customers excluding reverse repos	317.3	102.0	5.3		0.7	425.3
Customer deposits excluding repos	260.8	107.2	51.0		0.1	419.1
Total customer balances	578.1	209.2	56.3		0.8	844.4
Risk-weighted assets	86.6	127.8	9.6		13.4	237.4

NON-CORE BUSINESS

Half-year to 30 June 2013	Retail	Commercial Banking1	Wealth, Asset Finance and Int'l1	Insurance	Group Operations and Central items	Group
	£m	£m	£m	£m	£m	£m
Net interest income	9	23	185	4	(46)	175
Other income	6	164	33	15	–	218

Total underlying income	15	187	218	19	(46)	393
Total costs	(2)	(82)	(180)	(17)	–	(281)
Impairment	(46)	(425)	(435)	–	–	(906)
Underlying (loss) profit	(33)	(320)	(397)	2	(46)	(794)
Banking net interest margin	0.09%	0.29%	1.05%			0.41%
Impairment charge as a % of average advances	0.36%	2.35%	2.37%			1.83%
Key balance sheet items at 30 June 2013						
	£bn	£bn	£bn	£bn	£bn	£bn
Total non-core assets	25.1	31.4	25.5	0.6	–	82.6
Risk-weighted assets	8.6	24.1	22.5			55.2

Half-year to 30 June 2012	£m	£m	£m	£m	£m	£m
Net interest income	31	(3)	261	4	–	293
Other income	9	290	48	30	–	377
Total underlying income	40	287	309	34	–	670
Total costs	(3)	(120)	(236)	(19)	–	(378)
Impairment	(23)	(1,176)	(980)	–	–	(2,179)
Underlying profit (loss)	14	(1,009)	(907)	15	–	(1,887)
Banking net interest margin	0.22%	0.44%	1.15%			0.60%
Impairment charge as a % of average advances	0.17%	3.76%	4.42%			3.33%
Key balance sheet items at 30 June 2012						
	£bn	£bn	£bn	£bn	£bn	£bn
Total non-core assets	26.9	57.1	32.9	0.6	–	117.5
Risk-weighted assets	9.8	52.1	31.5			93.4

Half-year to 31 December 2012	£m	£m	£m	£m	£m	£m
Net interest income	1	(33)	226	5	(25)	174
Other income	7	200	31	19	–	257
Total underlying income	8	167	257	24	(25)	431
Total costs	(3)	(164)	(260)	(15)	(50)	(492)
Impairment	(55)	(1,066)	(478)	–	–	(1,599)
Underlying (loss) profit	(50)	(1,063)	(481)	9	(75)	(1,660)
Banking net interest margin	0.02%	0.25%	1.12%			0.47%
Impairment charge as a % of average advances	0.41%	4.64%	2.34%			2.91%
Key balance sheet items at 31 Dec 2012						
	£bn	£bn	£bn	£bn	£bn	£bn
Total non-core assets	26.0	43.0	28.9	0.5	–	98.4

Risk-weighted assets	8.9	37.4	26.6		72.9

1 Restated.

UNDERLYING BASIS QUARTERLY INFORMATION

	Quarter ended 30 June 2013 £m	Quarter ended 31 Mar 2013 £m	Quarter ended 31 Dec 2012 £m	Quarter ended 30 Sept 2012 £m	Quarter ended 30 June 2012 £m	Quarter ended 31 Mar 2012 £m
Group						
Net interest income	2,653	2,553	2,545	2,575	2,582	2,633
Other income	1,984	2,422	2,040	2,112	2,061	2,203
Insurance claims	(62)	(86)	(30)	(102)	(125)	(108)
Total underlying income	4,575	4,889	4,555	4,585	4,518	4,728
Total costs	(2,341)	(2,408)	(2,587)	(2,492)	(2,471)	(2,574)
Impairment	(811)	(1,002)	(1,278)	(1,262)	(1,500)	(1,657)
Underlying profit	1,423	1,479	690	831	547	497
Banking net interest margin	2.06%	1.96%	1.94%	1.93%	1.91%	1.95%
Impairment charge as a % of average advances	0.57%	0.80%	0.96%	0.93%	1.05%	1.14%
Return on risk-weighted assets	1.93%	1.96%	0.87%	1.01%	0.65%	0.57%
Core						
Net interest income	2,579	2,452	2,487	2,459	2,472	2,450
Other income	1,923	2,265	1,932	1,963	1,888	1,999
Insurance claims	(62)	(86)	(30)	(102)	(125)	(108)
Total underlying income	4,440	4,631	4,389	4,320	4,235	4,341
Total costs	(2,199)	(2,269)	(2,341)	(2,246)	(2,314)	(2,353)
Impairment	(416)	(491)	(568)	(373)	(566)	(412)
Underlying profit	1,825	1,871	1,480	1,701	1,355	1,576
Banking net interest margin	2.43%	2.34%	2.33%	2.32%	2.32%	2.32%
Impairment charge as a % of average advances	0.34%	0.51%	0.50%	0.36%	0.52%	0.36%
Return on risk-weighted assets	3.11%	3.20%	2.47%	2.83%	2.26%	2.61%
Non-core						
Net interest income	74	101	58	116	110	183
Other income	61	157	108	149	173	204

Insurance claims	–	–	–	–	–	–
Total underlying income	135	258	166	265	283	387
Total costs	(142)	(139)	(246)	(246)	(157)	(221)
Impairment	(395)	(511)	(710)	(889)	(934)	(1,245)
Underlying loss	(402)	(392)	(790)	(870)	(808)	(1,079)
Banking net interest margin	0.37%	0.44%	0.37%	0.49%	0.50%	0.70%
Impairment charge as a % of average advances	1.62%	2.03%	2.80%	3.08%	2.88%	3.71%

DIVISIONAL PERFORMANCE

RETAIL

Key highlights

- In the first half of 2013, Retail made significant progress in delivering our customer-led strategy, with continued investment in products and across all channels, including digital, which now has over 10 million active users.

- Underlying profit increased 11 per cent to £1,636 million, driven by a reduction in the impairment charge of 16 per cent with revenues stabilising with strong margin management, more than offsetting continued customer deleveraging. Return on risk-weighted assets increased to 3.51 per cent from 2.92 per cent at 30 June 2012.

- Loans and advances to customers decreased by 1 per cent compared to 31 December 2012. Customer de-leveraging slowed in the first half of the year with core lending expected to grow in the second half of the year. Customer deposits grew 1 per cent (3 per cent compared to 30 June 2012) with balances in our relationship brands up 6 per cent in the last 12 months.

- Customer complaints (excluding PPI) reduced 30 per cent to 1 per 1,000 accounts and customer service scores continued to increase across all brands.

- As the largest UK retail bank, we remain committed to meeting the needs of our customers and supporting the UK economy helping one in four first-time buyers and being strong supporters of government initiatives such as NewBuy and Help to Buy.

- Retail remains committed to supporting communities across the UK, participating in Group initiatives such as National School Sport week and raising funds for the Group's charity of the year with Lloyds TSB colleagues raising almost £100,000 for the Alzheimer's Society's Live Well campaign during Dementia Awareness Week alone.

	Half-year to 30 June 2013 £m	Half-year to 30 June 20121 £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	3,590	3,553	1	3,642	(1)
Other income	728	766	(5)	696	5
Total underlying income	4,318	4,319		4,338	
Total costs	(2,046)	(2,089)	2	(2,110)	3
Impairment	(636)	(758)	16	(512)	(24)

Underlying profit	1,636	1,472	11	1,716	(5)
Banking net interest margin	2.14%	2.05%	9bp	2.11%	3bp
Impairment charge as a % of average advances	0.37%	0.43%	(6)bp	0.29%	8bp
Return on risk-weighted assets	3.51%	2.92%	59bp	3.50%	1bp

1 Restated.

Key balance sheet items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Loans and advances to customers excluding reverse repos	340.5	343.3	(1)
Customer deposits excluding repos	263.2	260.8	1
Total customer balances	603.7	604.1	
Risk-weighted assets	91.6	95.5	(4)

RETAIL (continued)

Core	Half-year to 30 June 2013 £m	Half-year to 30 June 2012[1] £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	3,581	3,522	2	3,641	(2)
Other income	722	757	(5)	689	5
Total underlying income	4,303	4,279	1	4,330	(1)
Total costs	(2,044)	(2,086)	2	(2,107)	3
Impairment	(590)	(735)	20	(457)	(29)
Underlying profit	1,669	1,458	14	1,766	(5)
Banking net interest margin	2.31%	2.21%	10bp	2.29%	2bp
Impairment charge as a % of average advances	0.37%	0.45%	(8)bp	0.28%	9bp
Return on risk-weighted assets	3.95%	3.22%	73bp	3.98%	(3)bp

1 Restated.

Key balance sheet items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Loans and advances to customers excluding reverse repos	315.4	317.3	(1)
Customer deposits excluding repos	263.2	260.8	1

Total customer balances	578.6	578.1	
Risk-weighted assets	83.0	86.6	(4)

Non-core	Half-year to 30 June 2013 £m	Half-year to 30 June 2012 £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	9	31	(71)	1	
Other income	6	9	(33)	7	(14)
Total underlying income	15	40	(63)	8	88
Total costs	(2)	(3)	33	(3)	33
Impairment	(46)	(23)		(55)	16
Underlying (loss) profit	(33)	14		(50)	34
Banking net interest margin	0.09%	0.22%	(13)bp	0.02%	7bp
Impairment charge as a % of average advances	0.36%	0.17%	19bp	0.41%	(5)bp

Key balance sheet items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Total non-core assets	25.1	26.0	(3)
Risk-weighted assets	8.6	8.9	(3)

RETAIL (continued)

Progress against strategic initiatives

Our goal is to be the best bank for customers in the UK. Customer service scores were 11 per cent higher in the first half of 2013 compared to prior year, with record levels being reached across all channels. This improvement is being supported by increased focus on products and services that meet customer needs, and more effective delivery processes. As a result, Retail again made excellent progress in reducing customer complaints which are 30 per cent lower in the period, excluding PPI. By continuing to invest in our customers and growth, Retail is now strongly positioned as economic conditions start to improve. Later this year, we will be re-launching the iconic Lloyds Bank brand to deliver an improved customer experience and choice to our customers and introducing TSB as a new brand on the high street, creating fresh competition in the market place.

Retail is investing in the different channels used by customers to interact with the Group. We are upgrading our branch networks with over 1,000 new refurbishments completed since the strategic review. Our customers will also benefit from extended opening hours at Lloyds TSB and Bank of Scotland branches, the availability of 'welcoming' colleagues to receive customers into our branches and the installation of WiFi and tablets in a number of Lloyds TSB and Halifax branches to enhance and simplify the customer experience. We are also investing in skills training for our people to allow them to deliver effectively for our customers; our goal is for 50,000 colleagues to achieve the Chartered Banker's Foundation Standard for Professional Bankers.

At the same time, we are continuing to transform our digital proposition to ensure that we are delivering in line with our customers' growing appetite for digital banking and providing a joined-up customer experience across our channels. Our Money Manager and International Payments services provide improved access and control for online users, whilst Mobile Banking allows our 3.7 million mobile users to interact wherever and whenever they choose. Our active online user base has now surpassed the 10 million milestone, with internet users now initiating over 95 million log-ons every month; investing in systems capability has ensured service availability for customers throughout the first half.

As the largest UK retail bank we recognise the importance of our role in supporting our customers, and helping them to prosper. We have maintained our position as the largest lender to UK households, helping over 33,000 or one in four first-time buyers whilst supporting government initiatives aimed at new-to-market customers such as NewBuy and Help to Buy. We remain on track to deliver our commitment to lend £6.5 billion to help around 60,000 first-time buyers in 2013. We are also meeting the needs of our savers in the low interest rate environment, taking significant deposit inflows into our relationship brands in the first half, including strong current account and net switching inflows. At the same time, we have helped over 280,000 customers to manage their finances, improve their properties and buy their cars through unsecured loans. Our Halifax challenger brand has been recognised as Personal Finance Provider of the Year, Best Current Account Provider and Best Fixed Rate Account Provider by MoneyFacts in its recent awards, whilst also being named as Best Lender for Service and Best Overall Intermediary Lender alongside Birmingham Midshires as Best Buy-to-Let lender in categories of the 2013 Key Account awards.

We are also progressing our plans to simplify the bank, with further automation ensuring fewer manual interventions, leading to cost efficiencies and reduced customer complaints. We have launched a number of customer propositions, such as Lloyds TSB's 'Banking Made Easy', improvements to ISA tax year end processes that have reduced the time to transfer funds between banks for customers and automating our fixed term deposit product setup and maturity process. New Digital and Telephone Banking customers are now benefitting from instant activation of accounts opened and we have now routed 24 million calls through our market leading Interactive Voice Recognition upgrade, 'Say Anything', since October 2012.

In addition to our commitment to help our customers to succeed financially, Retail is continuing to support the UK economy and local communities through involvement in Group programmes and the initiatives of Retail colleagues, who have volunteered their time to assist a variety of community-based projects, such as 'Day to Make a Difference'. Halifax's partnership with 'The Big Lunch', an annual event held across the UK, helped to bring over 3 million people together to celebrate where they live and to get to know their neighbours. Other community activities include our Local Heroes programme in support of young athletes, whilst inspiring almost 3 million children to take part in National School Sport Week, both aimed at securing a lasting legacy for London 2012. Lloyds TSB colleagues also raised nearly £100,000 for The Alzheimer's Society's Live Well campaign during Dementia Awareness Week.

RETAIL (continued)

Financial performance

Underlying profit increased £164 million, or 11 per cent, to £1,636 million. Total underlying income was stable (with decreasing assets, offset by margin improvements), combined with reductions in costs and impairment.

Banking margin increased by 9 basis points versus the same period last year, and by 3 basis points relative to the second half. Lower savings rates have benefitted the liability margin, particularly relative to the second half of 2012, but low market interest rates continued to adversely impact the margin on compressed balances. Asset margins have been robust, albeit with recent competition in the market resulting in narrower new business margins.

Other operating income decreased as we continue to see lower income from bancassurance and protection following the Retail Distribution Review in 2012 and subdued customer demand for these products. This was partially offset by the impact of revised commission arrangements in relation to the home insurance book.

Total costs fell 2 per cent, primarily as a result of the Simplification programme and ongoing cost management activity.

Impairment reduced 16 per cent to £636 million. The unsecured impairment charge reduced to £449 million from £585 million in the first half of 2012 driven largely by debt sale activity. The secured impairment charge increased to £187 million from £173 million with impairment provisions maintained at £1,614 million, thus increasing provision coverage to 26.0 per cent.

Balance sheet

We continued to improve the strength and quality of the Retail balance sheet through a focus on lower risk lending to franchise customers and deepening of relationship deposit balances. This helped to build strong underlying business momentum, allowing Retail to make a significant contribution to the overall improvement in Group capital, liquidity and margin ratios.

Loans and advances to customers decreased by 1 per cent (2 per cent compared to 30 June 2012) with customer deleveraging slowing in the first half of 2013. Secured balances reduced by £1.9 billion, to £319.4 billion of which £0.8 billion was a reduction in our non-core lending portfolio in line with the Group's strategy. Gross new mortgage lending was £14.5 billion in the first half of 2013 compared to £12.3 billion in the first half of 2012, an increase of £2.2 billion.

Customer deposits increased 1 per cent to £263.2 billion (3 per cent compared to 30 June 2012). Savings balances increased to £219.3 billion broadly in line with market growth with relationship balances (Lloyds TSB, Halifax and Bank of Scotland) increasing 6 per cent over the last 12 months. Personal Current Account balances increased £1.8 billion in the first six months of 2013 to £43.9 billion driven by the effect of our strong product offerings, particularly in the Lloyds TSB brand.

Risk-weighted assets decreased to £91.6 billion, a reduction of £3.9 billion or 4 per cent. This was driven by a reduction in lending balances for both secured and unsecured portfolios and improvements in credit quality of retail assets. Credit quality strengthened due to ongoing effective portfolio management and positive macroeconomic factors.

COMMERCIAL BANKING

Key highlights

- Commercial Banking is committed to being the best bank for clients, with a core product offering of Lending, Transaction Banking, Financial Markets and Capital Markets servicing the needs of Small and Medium-sized Enterprises (SME), Mid Markets, Global Corporates and Financial Institutions.

- Commercial Banking returned to profitability with an underlying profit of £634 million, compared to an £83 million loss in the first half of 2012, driven by a 48 per cent reduction in impairment charges and a 2 per cent reduction in costs.

- The impairment charge as a percentage of average advances improved by 58 basis points reflecting lower charges in the non-core portfolio. Core impairment charge as a percentage of average advances of 0.57 per cent reflects the relatively stable economic environment seen in the first half of 2013, with the year on year increase of 17 basis points due to releases in 2012 not being repeated in 2013.

- Core underlying income grew by 5 per cent, driving an increase in underlying profit of 3 per cent to £954 million. This was attributable to net interest margin expansion and increased other income from Capital Markets and LDC as we execute our UK-focused strategy. This was offset by an increase in impairments due to a number of releases in 2012 not being repeated in the first half of 2013 and ongoing investment in product capabilities driving a marginal increase in costs.

- Core lending increased by 4 per cent to £106.3 billion, driven by growth in SME, Mid Markets and Global Corporates. In the last 12 months, SME net lending grew by 5 per cent and lending committed to UK manufacturing companies exceeded £1 billion. Core customer deposits increased by 8 per cent to £115.8 billion, with increases seen across all client segments.

- Core return on risk-weighted assets increased by 6 basis points year on year, and 24 basis points from the second half of 2012, to 1.51 per cent. This reflects our continuing focus on optimisation of risk-weighted assets and our strategic priority of focusing our customer offering on capital efficient products.

	Half-year to 30 June 2013 £m	Half-year to 30 June 2012[1] £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	1,196	1,111	8	1,095	9
Other income	1,426	1,496	(5)	1,436	(1)
Total underlying income	2,622	2,607	1	2,531	4
Total costs	(1,261)	(1,282)	2	(1,234)	(2)
Impairment	(727)	(1,408)	48	(1,538)	53
Underlying profit (loss)	634	(83)		(241)	
Banking net interest margin	1.89%	1.58%	31bp	1.59%	30bp
Impairment charge as a % of average advances	1.03%	1.61%	(58)bp	2.06%	(103)bp
Return on risk-weighted assets	0.81%	(0.09)%	90bp	(0.28)%	109bp

Key balance sheet items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Loans and advances to customers excluding reverse repos	132.1	134.7	(2)
Debt securities and available-for-sale financial assets	4.5	9.5	(53)
	136.6	144.2	(5)
Customer deposits excluding repos	118.4	109.7	8
Risk-weighted assets	150.5	165.2	(9)

1 Restated.

COMMERCIAL BANKING (continued)

Core	Half-year to 30 June 2013 £m	Half-year to 30 June 20121 £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	1,173	1,114	5	1,128	4
Other income	1,262	1,206	5	1,236	2
Total underlying income	2,435	2,320	5	2,364	3
Total costs	(1,179)	(1,162)	(1)	(1,070)	(10)
Impairment	(302)	(232)	(30)	(472)	36
Underlying profit	954	926	3	822	16
Banking net interest margin	2.48%	2.21%	27bp	2.22%	26bp
Impairment charge as a % of average advances	0.57%	0.40%	17bp	0.93%	(36)bp
Return on risk-weighted assets	1.51%	1.45%	6bp	1.27%	24bp

Key balance sheet items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
SME2	27.7	26.6	4
Mid Markets, Global Corporates, Financial Institutions and Other	78.6	75.4	4
Loans and advances to customers excluding reverse repos	106.3	102.0	4
Debt securities and available-for-sale financial assets	1.8	2.3	(22)
	108.1	104.3	4
Customer deposits excluding repos	115.8	107.2	8
Risk-weighted assets	126.4	127.8	(1)

Non-core	Half-year to 30 June 2013 £m	Half-year to 30 June 20121 £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	23	(3)		(33)	
Other income	164	290	(43)	200	(18)
Total underlying income	187	287	(35)	167	12
Total costs	(82)	(120)	32	(164)	50
Impairment	(425)	(1,176)	64	(1,066)	60
Underlying loss	(320)	(1,009)	68	(1,063)	70
Banking net interest margin	0.29%	0.44%	(15)bp	0.25%	4bp
Impairment charge as a % of average advances	2.35%	3.76%	(141)bp	4.64%	(229)bp

Key balance sheet items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Loans and advances to customers excluding reverse repos	25.8	32.7	(21)
Debt securities and available-for-sale financial assets	2.7	7.2	(63)
	28.5	39.9	(29)
Non-core assets	31.4	43.0	(27)
Risk-weighted assets	24.1	37.4	(36)

1 Restated.
2 SME comprises clients with turnover of up to £25 million in line with lending data supplied by the Bank of England.

COMMERCIAL BANKING (continued)

Progress against strategic initiatives
Our strategy places clients at the centre of our business. In the first half of 2013, the benefits of our relentless execution have started to flow though our four client segments: Small and Medium-sized Enterprises (SME), Mid Markets, Global Corporates and Financial Institutions.

Commercial Banking has reshaped the SME and Mid Corporate Client Charters, helping to position Commercial Banking as the Best Bank for Clients. Clients are responding well to the charters with over 7,500 SME clients switching to the bank in the first half of 2013. In Mid Markets we are over half way through our programme of increasing the number of relationship managers, adding to our locally empowered teams across the UK. In Global Corporates we are increasingly focused on our UK and UK-linked clients improving relationship returns.

We continue to strengthen the balance sheet by improving the quality and quantum of deposits with a clear and continued focus on gathering transactional balances from our core client franchise and a controlled reduction of the non-core portfolio. Our ongoing focus on risk-weighted asset optimisation has resulted in a reduction in core risk-weighted assets of 1 per cent against an increase in core net lending of 4 per cent since December 2012.

We have continued to reduce our exposure to non-core assets, achieving a further substantial reduction of £11.6 billion in the first half of 2013, a decrease of 27 per cent compared to the end of 2012. Non-core risk-weighted assets decreased 36 per cent, against an asset reduction of 27 per cent, providing clear evidence of further reduction of risk in the portfolio.

We continue to invest in product capability to enhance our capital efficient product range. In Transaction Banking we have launched a new mobile card payment solution for our small businesses clients, working with Monitise to help our customers conduct their business on the move. We have also added the Chinese Renminbi to the list of currencies available in international payments, currency accounts, foreign exchange and trade-related services, particularly relevant for our Mid Markets and Global Corporate clients.

We have played a leading role in the development of the UK retail bond market and in May 2013 became a market maker on the London Stock Exchange for retail bond investors, providing the market with continuous pricing in bonds and gilts.

We continued to support the UK economy through financing UK SMEs and developing discounted funding propositions for our clients through the UK Government's Funding for Lending Scheme (FLS). In SME we achieved net growth in lending of 5 per cent over the last 12 months in a market which contracted by 3 per cent in the same period and we also achieved core lending growth across the broader Commercial client base ahead of plan.

We have helped 65,000 businesses start up in the first half of the year and are progressing to our commitment of helping 100,000 start ups. We have exceeded our £1 billion of new lending committed to manufacturing companies ahead of the September 2013 target date we committed to last year. We have 400 volunteer enterprise mentors actively working with community and business organisations throughout the UK and we have launched several innovative propositions for SMEs including our Assisted Asset Acquisition scheme to give clients creating employment access to grants alongside loans and hire purchase from us.

In the first half of 2013 we supported our Global Corporate clients in raising £8.1 billion of financing through the debt capital markets, enabling them to finance and grow their businesses. We have made good progress in creating solutions for our clients, maintaining a top four position in Investment Grade Corporate Sterling debt issuance over the same period.

Commercial Banking was awarded for the ninth year in a row the Business Bank of the Year at the FD's Excellence Awards (in association with the Institute of Chartered Accountants in England and Wales, supported by the CBI).

COMMERCIAL BANKING (continued)

Financial performance
Underlying profit increased by £717 million due to a 48 per cent reduction in impairments. Core underlying income grew by 5 per cent, with client income continuing to represent 90 per cent of total underlying income. Core return on risk-weighted assets increased by 6 basis points to 1.51 per cent.

Net interest income grew by £85 million with core increasing by £59 million driven by increased deposits. Non-core net interest income increased by £26 million due to reduced wholesale funding costs more than offsetting lower asset volumes as a result of our non-core asset reduction strategy.

Net interest margin increased by 31 basis points driven by improved lending and deposit margins. Core net interest margin increased by 27 basis points reflecting the reduction of duration in legacy long-dated lending portfolios, particularly in Mid Markets, and improved earnings on deposits. The ongoing commitment to FLS continues to benefit customers with a 1 per cent reduction in the interest rate offered to eligible customers. Non-core net interest margin decreased by 15 basis points to 0.29 per cent, as legacy wholesale funding costs continue to impact the remaining portfolio.

Other income decreased by £70 million, due to increases in core being more than offset by decreases in non-core. Core other income increased by £56 million due to improved performance in Debt Capital Markets and higher valuations in LDC. Core other income continues to represent over 50 per cent of core total underlying income. Non-core other income decreased £126 million due to the non-core asset reduction strategy.

Commercial Banking costs decreased by £21 million due to savings attributable to the Simplification programme, the continued focus on cost management and the non-core asset reduction strategy. The benefits of these cost saving initiatives have enabled further investment in the Transaction Banking and Financial Markets platforms.

Impairments decreased by £681 million, due to a 64 per cent reduction in non-core. Core impairments increased 30 per cent, due to releases in 2012 which were not repeated in 2013.

Balance sheet
Core lending increased by £4.3 billion as we continue to support our customers' financing requirements, achieving positive lending growth across SME, Mid Markets and Global Corporate during the first six months of 2013. The

ongoing commitment to FLS, including reduction of interest rates as offered to eligible customers, helped increase customer demand across the client franchise. Overall, loans and advances to customers decreased by £2.6 billion as the growth in core lending was more than offset by non-core asset reductions of £6.9 billion.

Customer deposits grew in the first half of 2013, increasing £8.7 billion year-on-year, with growth seen in Mid Markets and SME despite further reductions in market interest rates.

Non-core assets decreased by £11.6 billion, mainly due to reductions in loans and advances to customers and treasury assets.

Risk-weighted assets decreased by £14.7 billion to £150.5 billion, primarily reflecting balance sheet disposals (non-core risk-weighted assets represented £13.3 billion of the total reduction). Core risk-weighted assets reduced by £1.4 billion, despite a 4 per cent increase in core net lending mainly reflecting our strategic focus on capital efficient products, regulatory treatments and market risk reductions.

WEALTH, ASSET FINANCE AND INTERNATIONAL

Key highlights

- We again delivered strong profitable growth in our Wealth and Asset Finance businesses whilst continuing to simplify our operating model and invest in building future capability across the core business.

- Losses reduced by 86 per cent to £101 million driven primarily by lower impairments, mainly in Ireland, and strong profitable growth in the core business.

- Profits in the core business increased by 47 per cent to £296 million (66 per cent excluding St. James's Place in which we now hold a 21 per cent stake) driven largely by strong net interest income performance in the Asset Finance business and further cost reductions across all businesses. Core return on risk-weighted assets increased from 4.46 per cent to 6.24 per cent driven by strong and improving volumes and margins across the core business.

- We achieved cost savings of 9 per cent (6 per cent excluding St. James's Place) through continued progress in Wealth and Asset Finance in relation to Simplification initiatives and the further reductions in our non-core International footprint.

- We are ahead of target in reducing our international presence with 17 countries or overseas branches now exited, or exit announced; we are now targeting a presence in less than 10 countries by the end of 2014.

- Core loans and advances to customers increased by 6 per cent (net of a £0.7 billion reduction as a result of the announced exit from our International Private Banking businesses) driven mainly by Asset Finance as a result of continued growth in UK motor finance business. In addition, we have delivered a further 12 per cent reduction in non-core assets since December 2012 of which £0.7 billion was in our Irish portfolio.

	Half-year to 30 June 2013 £m	Half-year to 30 June 20121 £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	431	415	4	384	12
Other income	951	1,006	(5)	1,037	(8)

Total underlying income	1,382	1,421	(3)	1,421	(3)
Total costs	(1,033)	(1,136)	9	(1,155)	11
Impairment	(450)	(991)	55	(489)	8
Underlying loss	(101)	(706)	86	(223)	55
Underlying loss excluding St. James's Place2	(154)	(761)	80	(329)	53
Banking net interest margin	2.01%	1.62%	39bp	1.69%	32bp
Impairment charge as a % of average advances	2.10%	3.99%	(189)bp	2.16%	(6)bp
Return on risk-weighted assets	(0.59)%	(3.38)%	279bp	(1.16)%	57bp

1 Restated.
2 The gain relating to the sale of shares in St. James's Place is included in Central items.

Key balance sheet and other items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Loans and advances to customers excluding reverse repos	30.3	33.4	(9)
Customer deposits excluding repos	48.9	51.9	(6)
Total customer balances	79.2	85.3	(7)
Operating lease assets	2.8	2.8	–
Funds under management	156.8	189.1	(17)
Risk-weighted assets	32.2	36.2	(11)

WEALTH, ASSET FINANCE AND INTERNATIONAL (continued)

Core	Half-year to 30 June 2013 £m	Half-year to 30 June 20121 £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	246	154	60	158	56
Other income	918	958	(4)	1,006	(9)
Total underlying income	1,164	1,112	5	1,164	–
Total costs	(853)	(900)	5	(895)	5
Impairment	(15)	(11)	(36)	(11)	(36)
Underlying profit	296	201	47	258	15
Underlying profit excluding St. James's Place	243	146	66	152	60
Banking net interest margin	7.78%	5.69%	209bp	6.09%	169bp
Impairment charge as a % of average advances	0.50%	0.36%	14bp	0.55%	(5)bp

Return on risk-weighted assets	6.24%	4.46%	178bp	5.76%	48bp

Key balance sheet and other items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Loans and advances to customers excluding reverse repos	5.6	5.3	6
Customer deposits excluding repos	48.7	51.0	(5)
Total customer balances	54.3	56.3	(4)
Operating lease assets	2.7	2.7	–
Risk-weighted assets	9.7	9.6	1

Non-core	Half-year to 30 June 2013 £m	Half-year to 30 June 2012[1] £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	185	261	(29)	226	(18)
Other income	33	48	(31)	31	6
Total underlying income	218	309	(29)	257	(15)
Total costs	(180)	(236)	24	(260)	31
Impairment	(435)	(980)	56	(478)	9
Underlying loss	(397)	(907)	56	(481)	17
Banking net interest margin	1.05%	1.15%	(10)bp	1.12%	(7)bp
Impairment charge as a % of average advances	2.37%	4.42%	(205)bp	2.34%	3bp

Key balance sheet and other items	At 30 June 2013 £bn	At 31 Dec 2012 £bn	Change %
Total non-core assets	25.5	28.9	(12)
Risk-weighted assets	22.5	26.6	(15)

1 Restated.

WEALTH, ASSET FINANCE AND INTERNATIONAL (continued)

Progress against strategic initiatives

The significant progress we have made in strengthening the balance sheet positions us for focused, profitable growth in our core business.

We continue to focus on simplifying operations and processes, de-layering management structures and increasing the efficiency of distribution channels and the back office. This drove underlying cost reductions of 7 per cent (excluding St. James's Place) in our Wealth business and 10 per cent in Asset Finance (excluding operating lease depreciation).

We continue to reshape the business and invest for growth in our core businesses. The division has made further good progress towards reducing its international footprint with the Group now having exited or announced the exit from 17 countries.

We continue to invest in our core businesses to grow market share and to leverage our market leading capability in Asset Finance and the strong returns in these businesses, at the same time as improving efficiency.

In Wealth, the investment is geared towards developing compelling propositions for customers within the UK and Channel Islands and also those with UK connections in anglophile territories. In the first half of 2013 we embedded the single Wealth business created in 2012 in order to generate synergies across the UK and Channel Islands and we announced the disposal of our Geneva based International Private Banking business.

We remain confident that by delivering our strategy to be a simple, customer-focused business we can increase the trust of both customers and stakeholders. In Wealth we have improved client service and accessibility through the faster access to advice and support that customers are now receiving via a new Private Banking Client Centre. We have introduced a pilot of a new point of sale system, will introduce new Customer Relationship Management technology in the second half of the year, and we are developing more bespoke ways to interact with our customers, particularly through digital channels.

We are focused on ways to leverage the strength of our core banking franchise which holds a number of significant customers who meet the criteria for our Wealth proposition. As market deposit rate levels continue to fall we will focus on supporting our customers with advice.

The Asset Finance proposition has now been refined and we are well positioned for growth. The business is investing in infrastructure and new growth initiatives which further strengthen the core businesses. This reflects changes in market outlook, our strong market position in both Blackhorse Motor Finance and Lex Autolease and evolving customer needs and technology trends. This is already delivering results - in the first half of 2013 Lex Autolease UK has returned to fleet growth, after many years of shrinkage, with a year on year increase in new vehicle deliveries, and the Blackhorse Retail Motor Finance business has seen new business volumes grow 30 per cent, while in Australia the business achieved new business growth of 22 per cent.

WEALTH, ASSET FINANCE AND INTERNATIONAL (continued)

Financial performance

Underlying loss reduced by 86 per cent to £101 million, primarily due to a £541 million reduction in impairments, strong banking net interest margins and lower costs, partially offset by a fall in income as a result of the balance sheet reduction together with the impact from the sale of approximately 37 per cent of St. James's Place.

Core underlying profit increased by 47 per cent to £296 million (excluding St. James's Place core underlying profit increased by 66 per cent to £243 million), largely driven by strong performance within our Wealth and Asset Finance deposit businesses and UK motor and contract hire businesses together with improved efficiency across all businesses. Underlying non-core loss reduced by 56 per cent to £397 million driven by a continued reduction in impairments in Ireland.

Net interest income increased by 4 per cent. Core net interest income grew by 60 per cent predominantly due to strong net interest margins in the Wealth and Asset Finance deposit businesses. Non-core net interest income reduced by 29 per cent driven by continuing reductions in the asset base within the non-core business. Strong margins in the core deposit business drove a net interest margin increase to 2.01 per cent from 1.62 per cent.

Other income reduced by 5 per cent to £951 million driven by the sales of part of our stake in St. James's Place. Excluding St. James's Place, core other income was in line with the same period last year.

Total costs decreased by 9 per cent to £1,033 million. In Wealth, costs were down 14 per cent (7 per cent excluding St. James's Place) and in Asset Finance costs were down 3 per cent (10 per cent excluding operating lease depreciation of £337 million, compared to £336 million in the same period last year) reflecting our continuing focus on the efficiency of our operating models.

The impairment charge reduced by 55 per cent to £450 million, largely as a result of lower charges in the Irish business where the charge amounted to £385 million compared to £897 million for the same period last year.

Overall, in the first half, Asset Finance delivered underlying profit growth of 59 per cent, underpinned by 6 per cent growth in income and 10 per cent reduction in costs (net of operating lease depreciation). In the first half Wealth (excluding St. James's Place) delivered underlying profit growth of 39 per cent, underpinned by level income and 7 per cent lower costs.

Balance sheet
Core lending increased by £0.3 billion to £5.6 billion after taking account of a £0.7 billion reduction as a result of the announced disposal of our International Private Banking businesses. The increase was mainly within Asset Finance as a result of continued growth in UK motor finance business. Overall, net loans and advances to customers decreased by £3.1 billion to £30.3 billion as we continue to de-risk the balance sheet. This reflects net repayments and asset sales of £3.4 billion, additional impairment provisions of £0.4 billion, mainly within the Irish business, offset by foreign exchange movements of £0.7 billion.

Customer deposit balances reduced by £3.0 billion since December 2012 to £48.9 billion. However, this includes a £2.2 billion reduction as a result of the announced disposal of our International Private Banking and Spanish Retail businesses. Excluding the impact of these disposals, underlying customer deposits reduced by £0.8 billion arising mainly within the European online deposit business as a result of pricing changes in keeping with our manage for value strategy.

Risk-weighted assets fell by 11 per cent from £36.2 billion to £32.2 billion, compared to a 9 per cent fall in loans and advances reflecting continued focus in the period on non-core asset run-off and balance sheet de-risking.

Funds under management decreased by 17 per cent to £156.8 billion but increased 1.6 per cent excluding St. James's Place. The underlying increase is primarily driven by improved investment markets which have driven an increase of £5.9 billion, however, partially offset by reductions arising from the disposals in the period of our businesses in Luxembourg and Spain together with net outflows of £5.3 billion mainly as a result of attrition within the Scottish Widows Investment Partnership insurance funds and the payment of a dividend from the insurance division of £1.6 billion.

WEALTH, ASSET FINANCE AND INTERNATIONAL (continued)

Wealth

	Half-year to 30 June 2013 £m	Half-year to 30 June 20121 £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %

Net interest income	173	172	1	156	11
Other income	409	448	(9)	492	(17)
Total underlying income	582	620	(6)	648	(10)
Total costs	(410)	(477)	14	(466)	12
Impairment	(8)	(8)	–	(15)	47
Underlying profit	164	135	21	167	(2)
Underlying profit excluding St. James's Place	111	80	39	61	82

Asset Finance

Net interest income	252	205	23	209	21
Other income	541	542	–	545	(1)
Total underlying income	793	747	6	754	5
Total costs	(512)	(530)	3	(513)	–
Impairment	(35)	(62)	44	(74)	53
Underlying profit	246	155	59	167	47

International

Net interest income	6	38	(84)	19	(68)
Other income	1	16	(94)	–	
Total underlying income	7	54	(87)	19	(63)
Total costs	(111)	(129)	14	(176)	37
Impairment	(407)	(921)	56	(400)	2
Underlying loss	(511)	(996)	49	(557)	8

1 Restated.

Key balance sheet items	Wealth At 30 June 2013 £bn	At 31 Dec 2012 £bn	Asset Finance At 30 June 2013 £bn	At 31 Dec 2012 £bn	International At 30 June 2013 £bn	At 31 Dec 2012 £bn
Loans and advances to customers excluding reverse repos	3.3	4.2	9.2	9.3	17.8	19.9
Customer deposits excluding repos	28.6	30.8	20.1	20.2	0.2	0.9
Total customer balances	31.9	35.0	29.3	29.5	18.0	20.8
Funds under management	156.8	188.6	–	–	–	0.5
Risk-weighted assets	5.3	5.6	10.7	10.9	16.2	19.7

INSURANCE

Key highlights

- We have delivered a strong performance in the first half of 2013 and have leveraged the financial strength of the insurance business to make a significant contribution to the optimisation of the Group's capital structure.
- Total underlying profit increased by 12 per cent and core underlying profit by 15 per cent, primarily reflecting a 6 per cent improvement in core underlying income as well as an 8 per cent decrease in core costs which includes synergies delivered under our new insurance structure.
- The 6 per cent increase in core underlying income primarily reflects an increase in Life, Pensions and Investments (LP&I) income and a stable performance in General Insurance.
- LP&I income has increased by £26 million despite lower bancassurance investment sales following the withdrawal in the second half of 2012 of investment advice for customers with savings below £100,000.
- 29 per cent growth in sales of corporate pensions reflects the strength of our proposition and the conversion of the strong pipeline generated in the run up to implementation of the Retail Distribution Review (RDR).
- We launched our enhanced annuities product in June which is a key step in expanding our participation in the growing annuity market.
- The strong underlying profitability and capitalisation of the Insurance business has enabled Scottish Widows to remit a further £1.6 billion to the Group whilst maintaining a significant capital base in Insurance, reflected in an estimated Pillar 1 capital surplus of £3.0 billion (Scottish Widows plc) and an estimated IGD capital surplus of £2.7 billion for the insurance group.

	Half-year to 30 June 2013 £m	Half-year to 30 June 2012 £m	Change since 30 June 2012 %	Half-year to 31 Dec 2012 £m	Change since 31 Dec 2012 %
Net interest income	(45)	(37)	(22)	(41)	(10)
Other income	1,111	1,156	(4)	1,138	(2)
Insurance claims	(148)	(233)	36	(132)	(12)
Total underlying income	918	886	4	965	(5)
Total costs	(354)	(384)	8	(360)	2
Underlying profit	564	502	12	605	(7)
EEV new business margin	3.3%	3.6%	(30)bp	3.8%	(50)bp
Life, Pensions and Investments sales (PVNBP)	5,552	5,627	(1)	4,737	17
General Insurance combined ratio	69%	80%	(11)pp	72%	(3)pp

Core	£m	£m	%	£m	%
Net interest income	(49)	(41)	(20)	(46)	(7)
Other income	1,096	1,126	(3)	1,119	(2)
Insurance claims	(148)	(233)	36	(132)	(12)
Total underlying income	899	852	6	941	(4)
Total costs	(337)	(365)	8	(345)	2

Underlying profit	562	487	15	596	(6)
Non-core	£m	£m	%	£m	%
Net interest income	4	4	–	5	(20)
Other income	15	30	(50)	19	(21)
Insurance claims	–	–		–	
Total underlying income	19	34	(44)	24	(21)
Total costs	(17)	(19)	11	(15)	(13)
Underlying profit	2	15	(87)	9	(78)

INSURANCE (continued)

Progress against strategic initiatives
The insurance division has continued to make a significant contribution to the Group's objective of being the best bank for customers, enhancing our market leading pensions and protection products which help customers to protect themselves today and prepare for a secure financial future. We believe that our multi-brand, multi-channel model will allow us the flexibility to meet the changing financial needs of our customers. We have delivered underlying profits in excess of £1 billion for the last four years, which has enabled the payment of a total of £4.6 billion of dividends to the Group since 2009. This has contributed to optimisation of the Group's capital structure and strengthening of its capital ratios.

We are focused on strengthening our position in the growing retirement savings market. In corporate pensions we have benefitted from the conversion of the strong pipeline generated in the run up to RDR contributing to 29 per cent growth. We see opportunities in increasing contributions and members within existing schemes and are also working closely with our corporate customers to support them through auto-enrolment which is expected to drive further growth over the next three to five years. Our award-winning personal pensions product, the Retirement Account, has performed well reflecting the transparent charging and flexibility that it offers customers.

The launch of our enhanced annuities proposition in June was an important step to competing more effectively in an increasingly open market. We see enormous potential to serve the retirement needs of our retail bank customers, many of whom may no longer be able to get independent financial advice at retirement. We are addressing this by leveraging Group expertise and investing in the capability of our Direct channel, with a clear focus on meeting customer needs including looking to increase the range of products we can offer through this growing channel.

We are committed to helping meet the UK population's £2.4 trillion protection gap. Only 42 per cent of the working population has life insurance, falling to 15 per cent for critical illness and just 7 per cent for income protection. We are already the market leader in Bancassurance protection and will build upon our strong advisor force in the retail network. We are investing in developing our proposition for the intermediary channel where we plan to launch in 2014.

We continue to see the home insurance market as serving a key need for our customers and as an attractive market. Our ability to accurately and competitively price home insurance has been enhanced by the insight we can draw on across the Group's customer base. When combined with our investment in flood mapping and strong claims management capability we believe that we are well placed to serve our customers in this market. Our commercial insurance proposition is being strengthened with the introduction of additional underwriters to widen the risk protection that we can offer our SME customer base.

Following the transfer of our operations to the Group Operations functions we expect to see further customer service and cost benefits through adoption of best practice from across the Group. The simplification of our business model and processes has contributed approximately 75 per cent of the overall improvement in our costs this year. We anticipate this simplified business model continuing to support our position as a cost leader in the industry.

Our 2013 market leading Protection, Pension and Savings reports highlighted the inadequacy of the provision made for protection and for a secure financial future by the UK population. Scottish Widows has continued to lead the debate on these issues as part of our commitment to better understanding our customers' needs and helping Britain prosper. The benefit of this insight is reflected in the strength of our customer propositions which have won several industry awards including; 'Best Group Pension Provider' in the Corporate Adviser awards and 'Best Personal Pensions Provider' in the Professional Adviser awards, both for the second year running as well as 'Group Pension Provider of the Year' and 'Personal Pension Provider of the Year' at the Financial Adviser Life awards. Scottish Widows was awarded a 5-star rating in the 'Life and Pensions' category at the recent FT Adviser Online Service Awards.

INSURANCE (continued)

Financial Performance

	Half-year to 30 June 2013	Half-year to 30 June 2012	Change since 30 June