2021 HALF-YEAR RESULTS

News Release

BASIS OF PRESENTATION

This release covers the results of Lloyds Banking Group plc together with its subsidiaries (the Group) for the six months ended 30 June 2021.

Underlying basis: In addition to the statutory basis of presentation, the results are also presented on an underlying basis. The Group Executive Committee, which is the chief operating decision maker for the Group, reviews the Group's results on an underlying basis in order to assess performance and allocate resources. Management uses underlying profit before tax, an alternative performance measure, as a measure of performance and believes that it provides important information for investors because it allows for a comparable representation of the Group's performance by removing the impact of certain items including volatility caused by market movements outside the control of management.

In arriving at underlying profit, statutory profit before tax is adjusted for the items below, to allow a comparison of the Group's underlying performance:

- Restructuring, including severance-related costs, property transformation, technology research and development, regulatory programmes and merger, acquisition and integration costs
- Volatility and other items, which includes the effects of certain asset sales, the volatility relating to the Group's hedging arrangements and that arising in the insurance business, the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets
- Payment protection insurance provisions

The analysis of lending and expected credit loss (ECL) allowances is presented on an underlying basis and reconciled to figures prepared on a statutory basis. On a statutory basis, purchased or originated credit-impaired (POCI) assets include a fixed pool of mortgages that were purchased as part of the HBOS acquisition at a deep discount to face value reflecting credit losses incurred from the point of origination to the date of acquisition. Over time, these POCI assets will run off as the loans redeem, pay down or losses crystallise. The underlying basis assumes that the lending assets acquired as part of a business combination were originated by the Group and are classified as either Stage 1, 2 or 3 according to the change in credit risk over the period since origination. Underlying ECL allowances have been calculated accordingly. The Group uses the underlying basis to monitor the creditworthiness of the lending portfolio and related ECL allowances.

Commentary within the results for the full year on page 1 and within the Interim Group Chief Executive's statement on pages 7 to 9 is given on an underlying basis.

Unless otherwise stated, income statement commentaries throughout this document compare the six months ended 30 June 2021 to the six months ended 30 June 2020, and the balance sheet analysis compares the Group balance sheet as at 30 June 2021 to the Group balance sheet as at 31 December 2020.

Alternative performance measures: The Group uses a number of alternative performance measures, including underlying profit, in the discussion of its business performance and financial position. These measures are labelled with a '†' throughout this document. Further information on these measures is set out on page 125.

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RESULTS FOR THE HALF-YEAR

"During the first six months of 2021, the Group has delivered a solid financial performance with continued business momentum, bolstered by an improved macroeconomic outlook for the UK. While we are seeing clear progress in the vaccine roll out and emergence from lockdown restrictions, the coronavirus pandemic continues to have a significant impact on the people, businesses and communities of the UK. In this context, the Group remains committed to Helping Britain Recover from the pandemic and delivering for all stakeholders."

William Chalmers
Interim Group Chief Executive

Solid financial performance with continued business momentum, bolstered by improved macroeconomic outlook

- Good progress on Strategic Review 2021 priorities, including record customer satisfaction scores, improved capabilities in Markets products and a leading payments card spend market share
- Announced today the acquisition of Embark, a fast growing investment and retirement platform business. Embark enhances our capabilities to address the attractive mass market and self-directed Wealth segment, completing the Group's Wealth proposition. Embark will also enable the Group to re-platform its pensions and retirement proposition, significantly strengthening its offering in Retirement, an important growth market
- Statutory profit before tax of £3.9 billion, increased significantly on first half of 2020, benefiting from solid business momentum and a net impairment credit in the period
- Net income of £7.6 billion, up 2 per cent, with increased average interest-earning assets at £441 billion, a strong banking net interest margin of 2.50 per cent and other income of £2.4 billion, alongside a reduction in operating lease depreciation
- Sustained cost discipline with operating costs of £3.7 billion, including the impact of rebuilding variable pay in the context of stronger than expected financial performance
- Remediation charge of £425 million, materially driven by the £91 million regulatory fine relating to the communication of historical insurance renewals, £150 million of redress and operational costs for HBOS Reading, and charges in relation to other ongoing legacy programmes
- Net impairment credit of £656 million, including £333 million in the second quarter, as a result of an £837 million release driven by improvements to the macroeconomic outlook for the UK, combined with robust credit performance. Management judgements in respect of coronavirus retained, now c.£1.2 billion

Balance sheet and capital strength further enhanced

- Loans and advances at £447.7 billion, up £7.5 billion in the period, driven by strong growth of £12.6 billion in the open mortgage book
- Customer deposits of £474.4 billion up £23.7 billion in the period, with continued inflows into the Group's trusted brands, including Retail current accounts which were up £9.9 billion in the period. Resulting loan to deposit ratio of 94 per cent, continues to provide a strong liquidity position and significant potential to lend into recovery
- Strong capital build of 93 basis points in the first half prior to the interim ordinary dividend. Reintroduced a progressive and sustainable ordinary dividend policy, with an interim ordinary dividend of 0.67 pence per share
- CET1 ratio of 16.7 per cent after dividend accrual, significantly ahead of both the ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent and regulatory requirement of c.11 per cent

Outlook

- Given our solid financial performance and the improved UK macroeconomic outlook, the Group is enhancing its guidance for 2021. Based on the Group's current macroeconomic assumptions:
  - Net interest margin now expected to be around 250 basis points
  - Operating costs now expected to be c.£7.6 billion
  - Net asset quality ratio now expected to be below 10 basis points
  - Return on tangible equity now expected to be c.10 per cent, excluding the c.2.5 percentage point benefit from tax rate changes
  - Risk-weighted assets in 2021 now expected to be below £200 billion

INCOME STATEMENT − UNDERLYING BASIS†

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	***Change %***	Half-year to 31 Dec 2020 £m	***Change %***
Net interest income	**5,418**	5,478	***(1)***	5,295	***2***
Other income	**2,417**	2,461	***(2)***	2,054	***18***
Operating lease depreciation	**(271)**	(526)	***48***	(358)	***24***
Net income	**7,564**	7,413	***2***	6,991	***8***
Operating costs	**(3,730)**	(3,699)	***(1)***	(3,886)	***4***
Remediation	**(425)**	(177)		(202)	
Total costs	**(4,155)**	(3,876)	***(7)***	(4,088)	***(2)***
Underlying profit before impairment	**3,409**	3,537	***(4)***	2,903	***17***
Impairment	**656**	(3,818)		(429)	
Underlying profit (loss)	**4,065**	(281)		2,474	***64***
Restructuring	**(255)**	(133)	***(92)***	(388)	***34***
Volatility and other items	**95**	(188)		(173)	
Payment protection insurance provision	**—**	—		(85)	
Statutory profit (loss) before tax	**3,905**	(602)		1,828	
Tax (expense) credit	**(40)**	621		(460)	***91***
Statutory profit after tax	**3,865**	19		1,368	
Earnings (loss) per share	**5.1p**	(0.3)p		1.5p	
Dividends per share – ordinary	**0.67p**	—		0.57p	***18***
Banking net interest margin†	**2.50%**	2.59%	***(9)bp***	2.44%	***6bp***
Average interest-earning banking assets†	**£441bn**	£433bn	***2***	£437bn	***1***
Cost:income ratio†	**54.9%**	52.3%	***2.6pp***	58.5%	***(3.6)pp***
Asset quality ratio†	**(0.30)%**	1.73%	***(203)bp***	0.19%	***(49)bp***
Return on tangible equity[1,†]	**19.2%**	(1.3)%	***20.5pp***	5.9%	***13.3pp***

KEY BALANCE SHEET METRICS

	At 30 June 2021	At 30 June 2020	***Change %***	At 31 Dec 2020	***Change %***
Loans and advances to customers[2]	**£448bn**	£440bn	***2***	£440bn	***2***
Customer deposits[3]	**£474bn**	£441bn	***8***	£451bn	***5***
Loan to deposit ratio†	**94%**	100%	***(6)pp***	98%	***(4)pp***
CET1 ratio	**16.7%**	14.6%	***2.1pp***	16.2%	***0.5pp***
CET1 ratio pre IFRS 9 transitional relief and software[4]	**15.5%**	13.4%	***2.1pp***	14.5%	***1.0pp***
Transitional MREL ratio	**36.3%**	36.8%	***(0.5)pp***	36.4%	***(0.1)pp***
UK leverage ratio	**5.8%**	5.4%	***0.4pp***	5.8%	***—***
Risk-weighted assets	**£201bn**	£207bn	***(3)***	£203bn	***(1)***
Tangible net assets per share†	**55.6p**	51.6p	***4.0p***	52.3p	***3.3p***

1 Revised basis, calculation shown on page 31.

2 Excludes reverse repos of £52.7 billion (30 June 2020: £61.1 billion; 31 December 2020: £58.6 billion).

3 Excludes repos of £7.9 billion (30 June 2020: £12.3 billion; 31 December 2020 £9.4 billion).

4 CET1 ratio 'pre IFRS 9 transitional relief and software' reflects the full impact of IFRS 9, prior to the application of the transitional relief arrangements and the reversal of the beneficial treatment currently applied to intangible software assets.

QUARTERLY INFORMATION†

	Quarter ended 30 June 2021 £m	Quarter ended 31 Mar 2021 £m	Quarter ended 31 Dec 2020 £m	Quarter ended 30 Sept 2020 £m	Quarter ended 30 June 2020 £m	Quarter ended 31 Mar 2020 £m
Net interest income	**2,741**	2,677	2,677	2,618	2,528	2,950
Other income	**1,282**	1,135	1,066	988	1,235	1,226
Operating lease depreciation	**(123)**	(148)	(150)	(208)	(302)	(224)
Net income	**3,900**	3,664	3,593	3,398	3,461	3,952
Operating costs	**(1,879)**	(1,851)	(2,028)	(1,858)	(1,822)	(1,877)
Remediation	**(360)**	(65)	(125)	(77)	(90)	(87)
Total costs	**(2,239)**	(1,916)	(2,153)	(1,935)	(1,912)	(1,964)
Underlying profit before impairment	**1,661**	1,748	1,440	1,463	1,549	1,988
Impairment	**333**	323	(128)	(301)	(2,388)	(1,430)
Underlying profit (loss)	**1,994**	2,071	1,312	1,162	(839)	558
Restructuring	**(82)**	(173)	(233)	(155)	(70)	(63)
Volatility and other items	**95**	—	(202)	29	233	(421)
Payment protection insurance provision	**—**	—	(85)	—	—	—
Statutory profit (loss) before tax	**2,007**	1,898	792	1,036	(676)	74
Tax credit (expense)	**461**	(501)	(112)	(348)	215	406
Statutory profit (loss) after tax	**2,468**	1,397	680	688	(461)	480
Banking net interest margin†	**2.51%**	2.49%	2.46%	2.42%	2.40%	2.79%
Average interest-earning banking assets†	**£442bn**	£439bn	£437bn	£436bn	£435bn	£432bn
Cost:income ratio†	**57.4%**	52.3%	59.9%	56.9%	55.2%	49.7%
Asset quality ratio†	**(0.30)%**	(0.29)%	0.11%	0.27%	2.16%	1.30%
Return on tangible equity[1,†]	**24.4%**	13.9%	5.9%	6.0%	(6.1%)	3.7%
Loans and advances to customers[2]	**£448bn**	£444bn	£440bn	£439bn	£440bn	£443bn
Customer deposits[3]	**£474bn**	£462bn	£451bn	£447bn	£441bn	£428bn
Loan to deposit ratio†	**94%**	96%	98%	98%	100%	103%
Risk-weighted assets	**£201bn**	£199bn	£203bn	£205bn	£207bn	£209bn
Tangible net assets per share†	**55.6p**	52.4p	52.3p	52.2p	51.6p	57.4p

1 Revised basis, calculation shown on page 31.

2 Excludes reverse repos.

3 Excludes repos.

BALANCE SHEET ANALYSIS

	At 30 June 2021	At 31 Mar 2021	***Change***	At 30 June 2020	***Change***	At 31 Dec 2020	***Change***
	£bn	£bn	***%***	£bn	***%***	£bn	***%***
Loans and advances to customers							
Open mortgage book	**289.9**	283.3	***2***	267.1	***9***	277.3	***5***
Closed mortgage book	**15.3**	15.9	***(4)***	17.5	***(13)***	16.5	***(7)***
Credit cards	**13.6**	13.5	***1***	15.2	***(11)***	14.3	***(5)***
UK Retail unsecured loans	**8.0**	7.8	***3***	8.2	***(2)***	8.0	—
UK Motor Finance	**14.4**	14.9	***(3)***	15.3	***(6)***	14.7	***(2)***
Overdrafts	**1.0**	0.9	***11***	1.0	—	0.9	***11***
Retail other[1]	**10.5**	10.3	***2***	9.7	***8***	10.4	***1***
SME[2]	**40.4**	41.1	***(2)***	38.4	***5***	40.6	—
Mid Corporates	**3.8**	4.0	***(5)***	4.6	***(17)***	4.1	***(7)***
Corporate and Institutional	**44.9**	45.6	***(2)***	55.0	***(18)***	46.0	***(2)***
Commercial Banking other	**3.9**	4.1	***(5)***	5.0	***(22)***	4.3	***(9)***
Wealth	**1.0**	1.0	—	0.9	***11***	0.9	***11***
Central items	**1.0**	1.1	***(9)***	2.5	***(60)***	2.2	***(55)***
Loans and advances to customers[3]	**447.7**	443.5	***1***	440.4	***2***	440.2	***2***
Customer deposits							
Retail current accounts	**107.3**	103.0	***4***	87.5	***23***	97.4	***10***
Commercial current accounts[2,4]	**49.5**	47.2	***5***	44.2	***12***	47.6	***4***
Retail relationship savings accounts	**161.3**	158.2	***2***	148.5	***9***	154.1	***5***
Retail tactical savings accounts	**16.4**	13.8	***19***	12.7	***29***	14.0	***17***
Commercial deposits[2,5]	**124.5**	125.5	***(1)***	133.8	***(7)***	122.7	***1***
Wealth	**14.8**	14.1	***5***	13.5	***10***	14.1	***5***
Central items	**0.6**	0.6	—	0.9	***(33)***	0.8	***(25)***
Total customer deposits[6]	**474.4**	462.4	***3***	441.1	***8***	450.7	***5***
Total assets	**879.7**	869.5	**1**	873.0	***1***	871.3	***1***
Total liabilities	**827.8**	820.0	**1**	824.1	—	821.9	***1***
Ordinary shareholders' equity	**45.8**	43.4	***6***	42.8	***7***	43.3	***6***
Other equity instruments	**5.9**	5.9	—	5.9	—	5.9	—
Non-controlling interests	**0.2**	0.2	—	0.2	—	0.2	—
Total equity	**51.9**	49.5	***5***	48.9	***6***	49.4	***5***
Ordinary shares in issue, excluding own shares	**70,956m**	70,936m	—	70,735m	—	70,812m	—

1 Primarily Europe.
2 Includes Retail Business Banking.
3 Excludes reverse repos.
4 Primarily non-interest-bearing Commercial Banking current accounts.
5 Primarily Commercial Banking interest-bearing accounts.
6 Excludes repos.

GROUP RESULTS − STATUTORY BASIS

The results below are prepared in accordance with International Financial Reporting Standards (IFRSs). The underlying results are shown on page 2. A reconciliation between the statutory and underlying results is shown on page 28.

Income statement

	Half-year to 30 June 2021	Half-year to 30 June 2020	***Change***	Half-year to 31 Dec 2020	***Change***
	£m	£m	***%***	£m	***%***
Net interest income	**4,373**	6,556	***(33)***	4,193	***4***
Other income	**15,195**	316		18,102	***(16)***
Total income	**19,568**	6,872		22,295	***(12)***
Insurance claims	**(11,489)**	1,023		(15,064)	***(24)***
Total income, net of insurance claims	**8,079**	7,895	***2***	7,231	***12***
Operating expenses	**(4,897)**	(4,668)	***(5)***	(5,077)	***4***
Impairment	**723**	(3,829)		(326)	
Profit (loss) before tax	**3,905**	(602)		1,828	
Tax (expense) credit	**(40)**	621		(460)	***91***
Profit for the period	**3,865**	19		1,368	

The Group's statutory income statement includes income and expense attributable to the policyholders of the Group's long-term assurance funds. These items materially offset in arriving at profit attributable to equity shareholders but can, depending on market movements, lead to significant variances on a statutory basis between total income and insurance claims from one period to the next. In the six months to 30 June 2021, due to strong market conditions, the Group recognised significant gains on policyholder investments within total income which were materially offset by an increase within insurance claims expense, representing the growth in the corresponding insurance and investment contract liabilities.

GROUP RESULTS − STATUTORY BASIS (continued)

Balance sheet

	At 30 June 2021 £m	At 30 June 2020 £m	***Change %***	At 31 Dec 2020 £m	***Change %***
Assets					
Cash and balances at central banks	**78,966**	78,139	***1***	73,257	***8***
Financial assets at fair value through profit or loss	**177,589**	157,113	***13***	171,626	***3***
Derivative financial instruments	**22,193**	32,978	***(33)***	29,613	***(25)***
Financial assets at amortised cost	**516,175**	518,314	—	514,994	—
Financial assets at fair value through other comprehensive income	**26,213**	27,211	***(4)***	27,603	***(5)***
Other assets	**58,551**	59,239	***(1)***	54,176	***8***
Total assets	**879,687**	872,994	***1***	871,269	***1***
Liabilities					
Deposits from banks	**20,655**	34,124	***(39)***	31,465	***(34)***
Customer deposits	**482,349**	453,446	***6***	460,068	***5***
Financial liabilities at fair value through profit or loss	**21,054**	21,474	***(2)***	22,646	***(7)***
Derivative financial instruments	**17,951**	28,631	***(37)***	27,313	***(34)***
Debt securities in issue	**81,268**	99,931	***(19)***	87,397	***(7)***
Liabilities arising from insurance and investment contracts	**162,399**	143,052	***14***	154,512	***5***
Subordinated liabilities	**13,527**	17,717	***(24)***	14,261	***(5)***
Other liabilities	**28,598**	25,757	***11***	24,194	***18***
Total liabilities	**827,801**	824,132	—	821,856	***1***
Total equity	**51,886**	48,862	***6***	49,413	***5***
Total equity and liabilities	**879,687**	872,994	***1***	871,269	***1***

The Group's balance sheet includes assets and liabilities associated with the policyholders of the Group's long-term assurance funds. These items have no material impact in total upon the net assets attributable to equity shareholders but can, depending on market movements, lead to significant variances on a statutory basis, predominantly between financial assets at fair value through profit or loss and liabilities arising from insurance and investment contracts from one period to the next. In the six months to 30 June 2021, due to strong market conditions, significant growth was seen in policyholder investments, primarily within financial assets at fair value through profit or loss. This was materially offset by an increase in the corresponding insurance and investment contract liabilities.

INTERIM GROUP CHIEF EXECUTIVE'S STATEMENT

Since the start of the pandemic the Group has continued to Help Britain Recover, supporting Retail and Commercial customers and communities across the UK. In this context, over the last six months the Group has delivered a solid financial performance, with continued business momentum and balance sheet growth. It has been an honour to be Interim Group Chief Executive since May and I am proud of the positive impact that we have been able to make. The dedication of colleagues and their support of customers and businesses in these unique and challenging times is impressive.

Today, the coronavirus pandemic continues to have a significant impact on the people, businesses and communities in the UK and Government support measures remain important. While we are clearly seeing positive developments and the macroeconomic outlook is improving, supported by the successful vaccine roll out in the UK and emergence from lockdown restrictions, the outlook remains uncertain.

As we look forward into the remainder of 2021, I am confident that the Group's people, financial strength and business model will continue to Help Britain Recover. I look forward to working with Charlie Nunn when he starts in August as our new Group Chief Executive. I am confident he will find a truly customer focused business in a strong financial and strategic position. We remain committed to supporting our customers, colleagues and communities and ensuring a sustainable recovery.

Financial performance

In the context of continued business momentum and balance sheet growth the Group has delivered a solid financial performance with statutory profit before tax of £3.9 billion in the first half of 2021, significantly higher than the first half of 2020 and benefiting from a net impairment credit in the period. Net income of £7.6 billion was up 2 per cent, benefiting from increased average interest-earning assets and a strengthened net interest margin in the second quarter of 2021, as well as some early signs of recovery in other income and a reduction in operating lease depreciation. The Group continues to maintain its focus on cost management, with a market-leading cost:income ratio of 54.9 per cent. Operating costs increased slightly over the period due to the rebuilding of variable pay in the context of stronger than expected financial performance in income and impairments. Remediation charges also increased in the period as we took charges relating to a number of ongoing legacy issues. Increased profits were supported by the net impairment credit of £656 million, as a result of a release of expected credit loss (ECL) allowances of £837 million driven by the improved macroeconomic outlook for the UK, combined with robust credit performance.

The balance sheet continues to grow with loans and advances to customers at £447.7 billion, up 2 per cent in the first half of 2021, driven by strong growth in mortgage lending. Customer deposits continued to increase, with growth of £23.7 billion since the end of 2020, including significant growth in Retail current accounts and relationship savings balances. Deposit balances are now up c.£63 billion over the last eighteen months.

The Group's capital position remains strong with a CET1 ratio of 16.7 per cent after dividend accrual. Given the strength of the capital position and the regulator's clarification that banks may resume capital distributions, the Board has announced an interim ordinary dividend of 0.67 pence per share, in line with the Board's commitment to future capital returns, and has reintroduced a progressive and sustainable ordinary dividend policy.

Strategic progress

We launched Strategic Review 2021 in February this year, with a focus on Helping Britain Recover and further enhancing our core capabilities, specifically technology, payments, data and our people. Strategic Review 2021 supports the creation of sustainable shareholder value through revenue generation and diversification, further efficiency gains and disciplined growth as we accelerate our transformation and build the UK's preferred financial partner for personal customers and the best bank for business. In the first half of 2021, we invested £0.4 billion to support these strategic initiatives.

INTERIM GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

We are committed to helping our customers, clients, colleagues and communities through the coronavirus pandemic and rebuilding livelihoods, whilst delivering long-term sustainable returns for shareholders. We recognise that the focus of the Group's purpose, Helping Britain Prosper, must evolve in response to the current environment with changing societal and customer needs and expectations. We are therefore committed to Helping Britain Recover and supporting a sustainable recovery which benefits all of our stakeholders.

During the first half of 2021 we have made meaningful progress across all five of our Helping Britain Recover priority areas that are embedded in our business ambitions and where we can make the most difference. For example:

- We have helped rebuild households' financial health and wellbeing through directing customers to free independent debt advice for more than 130,000 accounts
- We have supported businesses to recover, adapt and grow through supporting over 48,000 businesses to start up and helping 75,000 small businesses boost their digital capability
- We have expanded the availability of affordable and quality homes with new lending of c.£9.0 billion to nearly 43,000 first-time buyers, almost reaching our full year 2021 target of £10 billion, as well as delivering £2.1 billion of new funding support to the social housing sector, exceeding our full year target
- We are accelerating the transition to a low carbon economy, expanding the funding available under our discounted green finance initiatives from £3 billion to £5 billion in the first half of 2021, with more than £8.6 billion of total green finance delivered since 2016. In addition, we have renewed our strategic relationship with Jaguar Land Rover, and have extended our contract with Tesla, supporting the delivery of the Group's goal of helping to reduce the emissions we finance by more than 50 per cent by 2030 on path to net zero by 2050, or sooner. Furthermore, our progress on reducing our own operational emissions has recently been recognised in being ranked sixth in the Financial Times' inaugural listing of Europe's Climate Leaders
- We are continuing to contribute to an inclusive society and build an inclusive organisation. In June 2021 we collaborated with City Mental Health Alliance to publish a research report on 'Mental Health And Race at Work' and have launched a pilot to improve free access to cash in underserved areas

Building the UK's preferred financial partner for personal customers and best bank for business
We are building on our position as the UK's largest personal customer franchise with our multi-brand, multi-channel model, leveraging our unique capabilities to meet more of our customers' needs. During the first half of 2021, we increased our net open mortgage book by £12.6 billion. We are exceeding our target to maintain record all channel net promoter score with a 3 point increase in the first half of 2021. We have seen positive annual net new money in Insurance and Wealth, with cumulative net flows for open book assets under administration of £4 billion in the first half of 2021.

We have today announced that we intend to acquire the Embark Group (Embark), a fast growing investment and retirement platform business. Embark enhances our capabilities to address the attractive mass market and self-directed Wealth segment, completing the Group's Wealth proposition. Embark will also enable us to re-platform the Group's pensions and retirement proposition, delivering a market-leading platform for intermediaries and significantly strengthening the Group's offering in Retirement, an important growth market.

As announced within Strategic Review 2021, the Group aims to meet more of its customers' broader financial needs, whilst retaining more of the c.£10 billion assets under administration which customers invest with third parties each year. The acquisition of Embark will deliver a modern, industry-leading mass market, direct-to-consumer proposition, complementing the Group's existing advice offerings through Schroders Personal Wealth and Cazenove Capital. The acquisition will see the Group acquire c.£35 billion of assets under administration on behalf of c.410,000 consumer clients.

We are targeting a top-three position in direct-to-consumer self-directed and robo-advice business in the medium term. We are also targeting a top-three position in the individual pensions and retirement drawdown market by 2025. The acquisition of Embark transforms our ability to achieve these objectives. As a consequence, we are increasing our Strategic Review 2021 net new money target from £25 billion to c.£40 billion by 2023, to reflect this increased growth potential.

INTERIM GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Through a combination of the Group's new capabilities and its multi-brand, multi-channel distribution model across more than 25 million customers, the Group expects this acquisition to deliver attractive growth and returns over time and create value for shareholders. A consideration of c.£390 million will be paid for the entire share capital of Embark upon completion. The transaction is expected to have a c.30 basis points impact on Group CET1 capital and deliver a mid-teens return on invested capital in the medium term, both including all integration and restructuring costs.

We have progressed towards our vision to be the best bank for business, building on our outstanding reach, supported by our brand and scale, our historic above-market growth in SME and a strong presence among large corporate clients. During the first half of 2021, we increased our SME and Retail Business Banking digital net promoter score by 3 points, targeting a 5 point increase by the end of 2023. We have also improved our share of FX products for core clients in 2021 and have improved our GBP rates ranking by four places to sixth.

Enhanced capabilities

We are progressively modernising our technology architecture in order to deliver better customer propositions and to structurally improve our operational efficiency and agility. We have further strengthened our digital offering for customers, including increasing the volume of mobile releases and improving customer satisfaction, with our record mobile app net promoter score increasing by 4 points in the first half of 2021, surpassing our target. Additionally, in line with the technology R&D investment we highlighted at the full year, we safely migrated around 120,000 customer accounts to our pilot new bank architecture in the first half. Although fewer than the c.400,000 originally planned, it was sufficient to provide a significant proof-point for our investment, allowing work to progress.

We have further invested in our payments proposition with a leading market share of card spend, in line with target. In addition, we have achieved a twofold increase in the number of corporate clients onboarded to the new cash management and payments platform with its improved capability to meet client needs. We remain on track for a threefold increase by the end of the year.

We have further invested in data capabilities to deliver more effective outcomes for our customers and our colleagues. During the first half of 2021, we have extended machine learning capabilities to drive faster mortgage approvals for 20,000 franchise customers using automated income verification analysis. In addition, we migrated 45 million customer records to private cloud hosting to prove our data migration capabilities. This reflects another important proof-point.

The pandemic has accelerated many of the trends previously evident in the workplace. These require a reduced office footprint, but also enhanced workspaces to foster collaboration and creativity. It is very important that we respond to this opportunity to best serve our colleagues and to enhance efficiency. During the first half of 2021, we have reduced office space by c.3 per cent, on track to meet our target of an 8 per cent reduction in 2021. We have also created three distinct workstyles, known as 'home', 'hub' and 'hybrid', as part of our planning for future ways of working. We expect around 80 per cent of colleagues to work in a hybrid manner under this model.

Much work remains to be done on Strategic Review 2021, but the first half represents a strong start on our programme.

Outlook

- Given our solid financial performance and the improved UK macroeconomic outlook, the Group is enhancing its guidance for 2021. Based on the Group's current macroeconomic assumptions:
  - Net interest margin now expected to be around 250 basis points
  - Operating costs now expected to be c.£7.6 billion
  - Net asset quality ratio now expected to be below 10 basis points
  - Return on tangible equity now expected to be c.10 per cent, excluding the c.2.5 percentage point benefit from tax rate changes
  - Risk-weighted assets in 2021 now expected to be below £200 billion

Although the macroeconomic outlook remains uncertain, the Group's people, financial strength and business model will ensure that we can continue to support our customers and Help Britain Recover. This is fully aligned with the Group's long term strategic objectives, the position of the franchise and the interests of our shareholders.

SUMMARY OF GROUP RESULTS

Solid financial performance with continued business momentum, bolstered by macroeconomic outlook

Statutory results

The Group's statutory profit before tax for the half-year to 30 June 2021 was £3,905 million, whilst statutory profit after tax was £3,865 million, both benefiting from solid business momentum and a net impairment credit driven by the UK's improved macroeconomic outlook, combined with robust credit performance. The Group's statutory profit after tax included a benefit of £970 million from the revaluation of deferred tax assets given the revised corporation tax rate effective from 1 April 2023, substantively enacted in the second quarter.

On a statutory basis, net income was up 2 per cent on the first half of 2020 reflecting lower net interest income given the reduced margins combined with lower levels of customer activity, more than offset by the positive impact of market volatility. Statutory operating expenses were up £229 million, impacted by a higher remediation charge in the period and increased restructuring costs. Statutory impairment for the period was a net credit as a result of a release of expected credit loss (ECL) allowances driven by the improved macroeconomic outlook for the UK, combined with robust credit performance.

Underlying results†

The Group's underlying profit was £4,065 million for the period, compared to an underlying loss of £281 million in the first six months of 2020, reflecting both solid financial performance and the improved macroeconomic outlook.

Underlying profit before impairment for the period of £3,409 million continues to recover and although down 4 per cent on the first six months of 2020 is up 17 per cent on the second six months of 2020. Net income was 2 per cent higher than in the first half of 2020 at £7,564 million and 8 per cent higher when compared to the second half of 2020. The Group continues to maintain its focus on cost management, with a market-leading cost:income ratio, although operating costs increased slightly on prior year due to the rebuilding of variable pay, given stronger than expected financial performance in income and impairments. Total costs, including remediation, were up 7 per cent on the prior year, given the slight increase in operating costs and a higher remediation charge in the period, materially driven by a regulatory fine relating to the communication of historical insurance renewals, further costs in relation to HBOS Reading and other litigation relating to ongoing legacy programmes.

The Group's balance sheet remains strong. Loans and advances to customers were 2 per cent higher at £448 billion, driven by strong growth in mortgage lending. Customer deposits increased 5 per cent to £474 billion with significant growth in Retail current accounts and relationship savings balances, continuing the trend seen since 2019. The Group's CET1 ratio was 16.7 per cent after dividend accrual, significantly ahead of both the ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent and the regulatory requirement of c.11 per cent.

Net income†

	Half-year to 30 June 2021	Half-year to 30 June 2020	***Change***	Half-year to 31 Dec 2020	***Change***
	£m	£m	***%***	£m	***%***
Net interest income	**5,418**	5,478	***(1)***	5,295	***2***
Other income	**2,417**	2,461	***(2)***	2,054	***18***
Operating lease depreciation	**(271)**	(526)	***48***	(358)	***24***
Net income	**7,564**	7,413	***2***	6,991	***8***
Banking net interest margin†	**2.50%**	2.59%	***(9)bp***	2.44%	***6bp***
Average interest-earning banking assets†	**£440.8bn**	£433.2bn	***2***	£436.6bn	***1***

SUMMARY OF GROUP RESULTS (continued)

Net income of £7,564 million was up 2 per cent on the first half of 2020, with slightly lower net interest income and other income more than offset by a reduction in operating lease depreciation. Compared to the second half of 2020, net income was up 8 per cent, driven by significant improvements in other income as well as an increase in net interest income and lower operating lease depreciation.

Net interest income of £5,418 million was down 1 per cent versus the first half of 2020, impacted by a reduction in the banking net interest margin which more than offset the effects of higher average interest-earning banking assets. The banking net interest margin reduced by 9 basis points to 2.50 per cent, reflecting the lower rate environment and change in asset mix, including lower unsecured balances. The banking net interest margin in the second quarter of 2021 improved to 2.51 per cent versus the first quarter, benefiting from improving structural hedge earnings and asset and liability mix in Commercial Banking. Average interest-earning banking assets were up 2 per cent compared to the first half of 2020, driven by strong growth in the open mortgage book and the impact of Government supported loan schemes. These were partially offset by the effects of the continued optimisation of the Corporate and Institutional book within Commercial Banking and lower unsecured and motor balances.

The Group manages the risk to its earnings and capital from movements in interest rates centrally by hedging the net liabilities which are stable or less sensitive to movements in rates. As at 30 June 2021 the Group’s structural hedge had an approved capacity of £225 billion, a prudent increase from £210 billion at year end 2020, capturing part of the liability growth since year end 2019, given the success in attracting deposit balances. The nominal balance of the structural hedge was £215 billion as at 30 June 2021 (31 December 2020: £186 billion) with a weighted-average duration of around three-and-a-half years (31 December 2020: around two-and-a-half years). The Group generated £1.1 billion of total gross income from the structural hedge balances in the first half of 2021 (half-year to 30 June 2020: £1.3 billion), impacted by market rates.

Taking all of these factors into account, the Group now expects the net interest margin for full year 2021 to be around 250 basis points, with low single-digit percentage growth in average interest-earning assets in 2021.

Other income of £2,417 million was 2 per cent lower than the first half of 2020, reflecting lower levels of insurance new business income, a lower Lex fleet size and significantly lower levels of gilt and other liquid asset sales (half-year to 30 June 2021: £23 million, half-year to 30 June 2020: £135 million). This was in part mitigated by strong performance in the Group's equity investment businesses, including Lloyds Development Capital, of £280 million (half-year to 30 June 2020: £9 million loss). The Group's other income was up 18 per cent on the second half of 2020, significantly due to the absence of the negative insurance assumption changes and experience variance seen in the second half of 2020.

In the second quarter of 2021, other income of £1,282 million was up £147 million against the previous three months, including a strong contribution from the Group's equity investment businesses and positive assumption changes in Insurance. The Group is also seeing some early signs of increasing customer activity and new business, particularly in Retail and workplace pensions within Insurance and Wealth.

Operating lease depreciation reduced to £271 million (half-year to 30 June 2020: £526 million) driven by strength in used vehicle prices during the first half of 2021, as well as the continued impact of a smaller Lex fleet size.

SUMMARY OF GROUP RESULTS (continued)

Total costs†

	Half-year to 30 June 2021	Half-year to 30 June 2020	***Change***	Half-year to 31 Dec 2020	***Change***
	£m	£m	***%***	£m	***%***
Operating costs	**3,730**	3,699	***(1)***	3,886	***4***
Remediation	**425**	177		202	
Total costs	**4,155**	3,876	***(7)***	4,088	***(2)***
Cost:income ratio†	**54.9%**	52.3%	***2.6pp***	58.5%	***(3.6)pp***

Total costs of £4,155 million were 7 per cent higher than in the first half of 2020, due to slightly higher operating costs and a higher remediation charge in the period. The Group continues to maintain its focus on cost management, with a market-leading cost:income ratio of 54.9 per cent. In the context of stronger than expected financial performance in income and impairments, the Group is accelerating the rebuild of variable pay in 2021, which has resulted in the slight increase in operating costs in the period.

Total investment spend in the first half of 2021 amounted to £0.9 billion, prioritising technology and digital projects whilst building on the customer ambitions and enhanced capabilities outlined in Strategic Review 2021, including £0.4 billion strategic investment spend. During the first half of 2021 the Group capitalised c.£0.6 billion of investment spend, of which c.£0.4 billion related to intangible assets. Total capitalised spend amounted to 64 per cent of investment.

The Group now expects operating costs for 2021 to be broadly in line with 2020 at c.£7.6 billion, as a result of the accelerated rebuild of variable pay in the context of stronger than expected financial performance.

Remediation charges increased to £425 million, materially driven by the £91 million regulatory fine relating to the communication of historic home insurance renewals, HBOS Reading charges as previously flagged, as well as litigation costs and charges in relation to other ongoing legacy programmes. With respect to HBOS Reading, £150 million was incurred in the first half of 2021, including operational costs to provide for the likelihood of activities spanning across 2022 as well as the outcome to date of decisions from the independent panel re-review on direct and consequential losses. Further significant charges over 2021 and 2022 could be required as more panel decisions are published, but at this stage it is not possible to reliably estimate the potential impact or timings.

SUMMARY OF GROUP RESULTS (continued)

Impairment†

Asset quality remains strong, with low levels of new to arrears. Impairment in the first half of the year was a net credit of £656 million, compared to a net charge of £3,818 million in the first half of 2020. The net credit in the period resulted from an £837 million release of expected credit loss (ECL) allowances driven by improvements to the macroeconomic outlook for the UK, of which £378 million was recognised in the second quarter of 2021. This was partially offset by a low run-rate impairment charge of £252 million, reflecting strong asset quality in a continued benign credit environment and some releases against Commercial Banking exposures.

The Group's ECL allowance reduced in the first half of the year by £1.3 billion to £5.6 billion (31 December 2020: £6.9 billion, 31 December 2019: £4.2 billion), of which £837 million resulted from improvements to the macroeconomic outlook, including stronger GDP performance, improved unemployment outlook partly given the impact of the extension of the Government’s Coronavirus Job Retention Scheme announced in the first quarter of 2021 and strength in house prices. Observed credit performance remained robust in the period, with the flow of assets into arrears, defaults and write-offs remaining at low levels. Reductions in Commercial Banking ECL allowances also reflect improved outcomes on restructuring cases, reduction in Stage 2 exposures and lower flows to default.

The ECL allowance remains high by historical standards, £1.4 billion above 31 December 2019 and assumes that a large proportion of these additional expected losses will crystallise over the next 12 months. This is expected to take place as support measures subside and unemployment increases, with the Group's base case predicting a peak of 6.6 per cent in the fourth quarter of 2021. The ECL allowance continues to reflect a probability-weighted view of future economic scenarios with a 30 per cent weighting of base case, upside and downside and a 10 per cent weighting of the severe downside. The improvement in unemployment and asset price outlook we have seen in 2021 within the base case is further reflected in all scenarios which have improved significantly since the year end.

The Group has retained the judgemental overlays applied at year end and has continued to offset modelled releases not deemed reflective of underlying risk. Management judgements in respect of coronavirus of c.£1.2 billion (31 December 2020: c.£0.9 billion) include a central £400 million overlay, as well as c.£800 million of judgements within the underlying portfolios (31 December 2020: c.£500 million). The central overlay was added at year end in recognition of the significant uncertainty with regard to the efficacy of coronavirus vaccines, the vaccination rollout, potential virus mutations and economic performance post lockdown restrictions and Government support. Although the base case outlook has improved throughout the first half, the Group considers these risks remain and that the conditioning assumptions for the improved base case and associated scenarios do not capture these unprecedented risks.

Overall the Group’s loan portfolio continues to be well positioned, reflecting a prudent, through-the-cycle approach to credit risk and high levels of security. The Retail portfolio is heavily weighted towards high quality mortgage lending where low loan-to-value ratios provide security against potential risks. The prime consumer finance portfolio also benefits from previous high quality growth and the Group’s prudent risk appetite. The Commercial portfolio reflects a diverse client base with limited exposure to sectors most affected by the coronavirus pandemic. Within Commercial Banking, management of concentration risk includes single name and country limits as well as controls over the overall exposure to certain higher risk sectors and asset classes.

Whilst covered by Government guarantees and with significant adoption of the Government's Pay As You Grow scheme, early trends in Bounce Back Loan Scheme (BBLS) repayments indicate fewer than 10 per cent of customers due to commence repayment across the Group have entered arrears.

Given the experience of the first half of the year and the Group's current macroeconomic assumptions, the full year impairment charge is expected to be materially lower than the guidance set out in the first quarter, with the net asset quality ratio for 2021 now expected to be below 10 basis points.

SUMMARY OF GROUP RESULTS (continued)

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	***Change %***	Half-year to 31 Dec 2020 £m	***Change %***
Charges pre-updated multiple economic scenarios[1]					
Retail	**527**	578	***9***	781	***33***
Commercial Banking	**(272)**	206		46	
Other	**(3)**	4		(5)	***40***
	252	788	***68***	822	***69***
Coronavirus impacted restructuring cases[2]	**(71)**	432		(29)	
Updated economic outlook:					
Retail	**(544)**	1,517		(492)	***(11)***
Commercial Banking	**(293)**	881		(72)	
Other	**—**	200		200	
	(837)	2,598		(364)	
Impairment (credit) charge	**(656)**	3,818		429	
Asset quality ratio†	**(0.30)%**	1.73%	***(203)bp***	0.19%	***(49bp)***

1 Charges based on the economic outlook as at 31 December 2019, prior to the impact of the coronavirus pandemic on forward looking expected losses.

2 Additional (credits)/charges on cases subject to restructuring at the end of 2019, where the coronavirus pandemic is considered to have had a direct effect upon the recovery strategy.

	At 30 June 2021[1] £m	At 31 Dec 2020[1] £m	***Change %***
Stage 2 gross loans and advances to customers	**54,129**	60,514	***(11)***
Stage 2 loans and advances to customers as % of total	**10.7%**	12.0%	***(1.3)pp***
Stage 2 ECL allowances[2]	**2,081**	2,727	***(24)***
Stage 2 ECL allowances[2] as % of Stage 2 drawn balances	**3.8%**	4.5%	***(0.7)pp***
Stage 3 gross loans and advances to customers	**8,616**	9,089	***(5)***
Stage 3 loans and advances to customers as a % of total	**1.7%**	1.8%	***(0.1)pp***
Stage 3 ECL allowances[2]	**2,108**	2,508	***(16)***
Stage 3 ECL allowances[2] as % of Stage 3 drawn balances[3]	**25.6%**	28.6%	***(3.0)pp***
Total loans and advances to customers[4]	**505,496**	505,129	***—***
Total ECL allowance on loans and advances to customers[2]	**5,555**	6,832	***(19)***
Total ECL allowances on loans and advances to customers[2] as % of drawn balances[3]	**1.1%**	1.4%	***(0.3)pp***

1 Underlying basis. Refer to basis of presentation.

2 Expected credit loss allowance on loans and advances to customers (drawn and undrawn).

3 Total and Stage 3 ECL allowances as a percentage of drawn balances are calculated excluding loans in recoveries in Retail and Commercial Banking of £380 million (31 December 2020: £317 million). Comparatives restated to reflect exclusion of Commercial Banking recoveries.

4 Includes reverse repos of £52.7 billion (31 December 2020: £58.6 billion).

SUMMARY OF GROUP RESULTS (continued)

Statutory profit

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	***Change %***	Half-year to 31 Dec 2020 £m	***Change %***
Statutory profit (loss) before tax	**3,905**	(602)		1,828	
Adjustments:					
Restructuring					
Severance costs	**(69)**	(28)		(128)	***46***
Property transformation	**(42)**	(37)	***(14)***	(109)	***61***
Technology research and development	**(81)**	(19)		(42)	***(93)***
Regulatory programmes	**(32)**	(19)	***(68)***	(23)	***(39)***
Mergers and acquisitions, integration and other restructuring costs	**(31)**	(30)	***(3)***	(86)	***64***
	(255)	(133)	***(92)***	(388)	***34***
Volatility and other items					
Market volatility and asset sales	**239**	(43)		(16)	
Amortisation of purchased intangibles	**(35)**	(34)	***(3)***	(35)	
Fair value unwind	**(109)**	(111)	***2***	(122)	***11***
	95	(188)		(173)	
Payment protection insurance provision	**—**	—		(85)	
Total adjustments	**(160)**	(321)	***50***	(646)	***75***
Underlying profit (loss)[†]	**4,065**	(281)		2,474	***64***
Earnings (loss) per share	**5.1p**	(0.3)p		1.5p	
Return on tangible equity[1,†]	**19.2%**	(1.3)%	***20.5pp***	5.9%	***13.3pp***

1 Calculation shown on page 31.

Further information on the reconciliation of underlying to statutory results is included on page 28.

Restructuring costs of £255 million, up from £133 million in the first half of 2020, reflected an increase in technology research and development spend as the Group invests in investigating and proving new technologies, as well as higher severance costs. A further increase in restructuring costs beyond the level of the first half is expected in the second half of 2021.

Volatility and other items, comprising market volatility and asset sales of £239 million, largely offset by the amortisation of purchased intangibles and the unwind of acquisition fair value adjustments, resulted in a net gain of £95 million compared to a net loss of £188 million in the first half of 2020. Within market volatility and asset sales, insurance volatility was favourable compared to prior year, driven largely by rising equity markets compared to the significant downturn in the first half of 2020, along with the narrowing spreads experienced this year. This was alongside reduced levels of positive banking volatility as a result of exchange rate movements.

SUMMARY OF GROUP RESULTS (continued)

Tax

The Group recognised a tax expense of £40 million in the period compared to a net credit of £621 million in the first six months of 2020. In March 2021, the UK Government announced its intention to increase the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023 and this was substantively enacted on 24 May 2021. As a result of this change in tax rate, the Group has recognised a £970 million deferred tax credit in the income statement and a £184 million debit within other comprehensive income, increasing the Group's net deferred tax asset by £786 million. The prior year tax credit included an uplift in deferred tax assets following the announcement by the UK Government that it would maintain the corporation tax rate at 19 per cent.

Return on tangible equity†

The return on tangible equity for the first half of the year was 19.2 per cent, which included the annualised c.5 percentage point benefit from the corporation tax rate change. Based on the Group's current macroeconomic assumptions, return on tangible equity for the full year is now expected to be c.10 per cent, excluding the equivalent c.2.5 percentage point benefit from tax rate changes over the year.

Balance sheet

	At 30 June 2021	At 30 June 2020	***Change %***	At 31 Dec 2020	***Change %***
Loans and advances to customers[1]	**£448bn**	£440bn	***2***	£440bn	***2***
Customer deposits[2]	**£474bn**	£441bn	***8***	£451bn	***5***
Loan to deposit ratio†	**94%**	100%	***(6)pp***	98%	***(4)pp***
Wholesale funding	**£103bn**	£125bn	***(17)***	£109bn	***(6)***
Wholesale funding <1 year maturity	**£34bn**	£40bn	***(16)***	£34bn	***(2)***
Of which money-market funding <1 year maturity[3]	**£21bn**	£26bn	***(17)***	£22bn	—
Liquidity coverage ratio – eligible assets[4]	**£139bn**	£138bn	***1***	£142bn	***(2)***
Liquidity coverage ratio[5]	**131%**	140%	***(9)pp***	136%	***(5)pp***

1 Excludes reverse repos of £52.7 billion (30 June 2020: £61.1 billion; 31 December 2020: £58.6 billion).

2 Excludes repos of £7.9 billion (30 June 2020: £12.3 billion; 31 December 2020 £9.4 billion).

3 Excludes balances relating to margins of £4.0 billion (30 June 2020: £6.9 billion; 31 December 2020: £5.3 billion).

4 Eligible assets are calculated as an average of month-end observations over the previous 12 months post any liquidity haircuts.

5 The liquidity coverage ratio is calculated as a simple average of month end observations over the previous 12 months.

The Group’s balance sheet reflects healthy franchise growth. Loans and advances to customers were 2 per cent higher at £448 billion compared to £440 billion at 31 December 2020. Within Retail, strong growth in the open mortgage book of £12.6 billion was only partially offset by the continued run off of the closed mortgage book and lower cards balances. Commercial Banking experienced reductions as a result of continued optimisation activity within the Corporate and Institutional book and a market where corporate liquidity levels are high and demand for new lending restrained. Customer deposits have increased by £23.7 billion since the end of 2020, with continued inflows into the Group's trusted brands and significant growth of £47.2 billion seen in Retail current accounts and relationship savings balances since 2019. Within Commercial Banking, deposits were up £3.6 billion, largely driven by the inflow of short-term balances, in June 2021.

The Group's loan to deposit ratio of 94 per cent continues to provide a strong liquidity position and significant potential to lend into recovery. The Group's funding and liquidity position is further discussed on page 54.

SUMMARY OF GROUP RESULTS (continued)

Capital

	At 30 June 2021	At 30 June 2020	***Change %***	At 31 Dec 2020	***Change %***
CET1 ratio	**16.7%**	14.6%	***2.1pp***	16.2%	***0.5pp***
CET1 ratio pre IFRS 9 transitional relief and software[1]	**15.5%**	13.4%	***2.1pp***	14.5%	***1.0pp***
Transitional total capital ratio	**23.1%**	22.3%	***0.8pp***	23.3%	***(0.2)pp***
Transitional MREL ratio	**36.3%**	36.8%	***(0.5)pp***	36.4%	***(0.1)pp***
UK leverage ratio	**5.8%**	5.4%	***0.4pp***	5.8%	***—***
Risk-weighted assets	**£201bn**	£207bn	***(3)***	£203bn	***(1)***
Ordinary shareholders' equity	**£46bn**	£43bn	***7***	£43bn	***6***
Tangible net assets per share†	**55.6p**	51.6p	***4.0p***	52.3p	***3.3p***

1 CET1 ratio 'pre IFRS 9 transitional relief and software' reflects the full impact of IFRS 9, prior to the application of the transitional relief arrangements, and the reversal of the beneficial treatment currently applied to intangible software assets.

Capital movements	**bps**
Banking build (pre impairment credit)	115
Impairment credit net of IFRS 9 transitional relief release	(6)
Underlying risk-weighted assets	16
Pension contributions and other movements	(32)
Capital build	**93**
Revised software rules[1]	(6)
Ordinary dividend accrual	(37)
Net movement in CET1 ratio	**50**

1 Reduction in benefit driven by prudential amortisation.

The Group's CET1 capital ratio increased from 16.2 per cent at 31 December 2020 to 16.7 per cent post dividend accrual. The strong capital build of 93 basis points during the first six months of the year largely reflected banking build (pre impairment credit), with a limited offset from the net impact of the impairment credit and partial release of IFRS 9 transitional relief which included 5 basis points relating to the phased reduction in static relief. Further increases in capital build from a reduction in underlying risk-weighted assets and other movements were more than offset by pension contributions of 35 basis points made during the period which reflected the full 2021 fixed contributions for the Group's three main defined benefit pension schemes. The accrual for foreseeable ordinary dividends includes the impact of the interim ordinary dividend.

The PRA have confirmed their intention to remove the beneficial treatment currently applied to intangible software assets and reinstate the original requirement to deduct these assets in full. This change will be implemented on 1 January 2022 and is expected to reduce the Group's reported CET 1 ratio by c.50 basis points at that time.

The Group continues to apply the revised IFRS 9 transitional arrangements for capital, with the total relief recognised at 30 June 2021 amounting to 78 basis points.

Excluding the IFRS 9 transitional relief and removing the current beneficial treatment applied to intangible software assets would reduce the Group's CET1 capital ratio from 16.7 per cent to 15.5 per cent, on the basis of the position at 30 June 2021.

SUMMARY OF GROUP RESULTS (continued)

The Board's view of the ongoing level of CET1 capital required by the Group to grow the business, meet regulatory requirements and cover uncertainties is around 12.5 per cent, plus a management buffer of around 1 per cent.

Risk-weighted assets at £201 billion reduced by £1.8 billion in the first six months of the year, primarily driven by continued optimisation activity undertaken in Commercial Banking, partially offset by a temporary increase in market risk and limited impacts from credit deterioration, the latter in part due to the mitigating impact of house price increases. Given the improved macroeconomic outlook, risk-weighted assets in 2021 are now expected to be below £200 billion by the end of the year. On 1 January 2022, regulatory headwinds from the implementation of new CRD IV models (predominantly relating to mortgages) and changes to counterparty credit risk rules (SA-CCR) are expected to increase risk-weighted assets by £15-£20 billion. Significant uncertainty remains around the outcome of the implementation and the macroeconomic environment at the time, both of which may impact this assessment.

Tangible net assets per share increased by 3.3 pence to 55.6 pence at 30 June 2021 from 52.3 pence at 31 December 2020.

Dividend

In respect of the first half of 2021 and following the PRA update of 13 July 2021, the Board has announced an interim ordinary dividend of 0.67 pence per share, reintroducing a progressive and sustainable ordinary dividend policy.

Going forward, the Group will revert to paying any ordinary dividends half yearly, rather than quarterly, with the quantum announced with the half year and full year results. The Board believes this approach is appropriate in the current environment given its simplicity, environmental benefits and the additional flexibility it provides to the business. The Board will continue to give due consideration at each year end to the return of any surplus capital through the use of special dividends or buybacks.

SEGMENTAL ANALYSIS – UNDERLYING BASIS†

Half-year to 30 June 2021	Retail £m	Commercial Banking £m	Insurance and Wealth £m	Central items £m	Group £m
Net interest income	**4,218**	**1,153**	**36**	**11**	**5,418**
Other income	**812**	**677**	**660**	**268**	**2,417**
Operating lease depreciation	**(263)**	**(8)**	**—**	**—**	**(271)**
Net income	**4,767**	**1,822**	**696**	**279**	**7,564**
Operating costs	**(2,296)**	**(901)**	**(493)**	**(40)**	**(3,730)**
Remediation	**(153)**	**(169)**	**(116)**	**13**	**(425)**
Total costs	**(2,449)**	**(1,070)**	**(609)**	**(27)**	**(4,155)**
Underlying profit before impairment	**2,318**	**752**	**87**	**252**	**3,409**
Impairment	**17**	**636**	**2**	**1**	**656**
Underlying profit	**2,335**	**1,388**	**89**	**253**	**4,065**
Banking net interest margin†	**2.45%**	**2.96%**			**2.50%**
Average interest-earning banking assets†	**£358.3bn**	**£81.6bn**	**£0.9bn**	**—**	**£440.8bn**
Asset quality ratio†	**(0.01)%**	**(1.48)%**			**(0.30)%**
Return on risk-weighted assets†	**4.75%**	**3.82%**			**4.08%**
Loans and advances to customers[1]	**£361.5bn**	**£84.2bn**	**£1.0bn**	**£1.0bn**	**£447.7bn**
Customer deposits[2]	**£309.8bn**	**£149.2bn**	**£14.8bn**	**£0.6bn**	**£474.4bn**
Risk-weighted assets	**£100.0bn**	**£72.7bn**	**£1.4bn**	**£26.8bn**	**£200.9bn**

Half-year to 30 June 2020	Retail £m	Commercial Banking £m	Insurance and Wealth £m	Central items £m	Group £m
Net interest income	4,233	1,222	14	9	5,478
Other income	919	658	853	31	2,461
Operating lease depreciation	(518)	(8)	—	—	(526)
Net income	4,634	1,872	867	40	7,413
Operating costs	(2,277)	(906)	(459)	(57)	(3,699)
Remediation	(50)	(115)	(19)	7	(177)
Total costs	(2,327)	(1,021)	(478)	(50)	(3,876)
Underlying profit before impairment	2,307	851	389	(10)	3,537
Impairment	(2,095)	(1,519)	(10)	(194)	(3,818)
Underlying profit (loss)	212	(668)	379	(204)	(281)
Banking net interest margin†	2.59%	2.92%			2.59%
Average interest-earning banking assets†	£342.3bn	£90.0bn	£0.9bn	—	£433.2bn
Asset quality ratio†	1.23%	3.12%			1.73%
Return on risk-weighted assets	0.43%	(1.70)%			(0.27)%
Loans and advances to customers[1]	£341.0bn	£96.0bn	£0.9bn	£2.5bn	£440.4bn
Customer deposits[2]	£272.2bn	£154.5bn	£13.5bn	£0.9bn	£441.1bn
Risk-weighted assets	£99.4bn	£78.4bn	£1.3bn	£28.0bn	£207.1bn

1 Excludes reverse repos.

2 Excludes repos.

SEGMENTAL ANALYSIS – UNDERLYING BASIS (continued)

Half-year to 31 December 2020	Retail £m	Commercial Banking £m	Insurance and Wealth £m	Central items £m	Group £m
Net interest income	4,151	1,135	35	(26)	5,295
Other income	814	634	397	209	2,054
Operating lease depreciation	(338)	(20)	—	—	(358)
Net income	4,627	1,749	432	183	6,991
Operating costs	(2,484)	(945)	(443)	(14)	(3,886)
Remediation	(75)	(95)	(31)	(1)	(202)
Total costs	(2,559)	(1,040)	(474)	(15)	(4,088)
Underlying profit before impairment†	2,068	709	(42)	168	2,903
Impairment	(289)	55	1	(196)	(429)
Underlying profit (loss)†	1,779	764	(41)	(28)	2,474
Banking net interest margin†	2.45%	2.74%			2.44%
Average interest-earning banking assets†	£348.5bn	£87.2bn	£0.9bn	—	£436.6bn
Asset quality ratio†	0.17%	(0.12)%			0.19%
Return on risk-weighted assets†	3.56%	1.98%			2.40%
Loans and advances to customers[1]	£350.9bn	£86.2bn	£0.9bn	£2.2bn	£440.2bn
Customer deposits[2]	£290.2bn	£145.6bn	£14.1bn	£0.8bn	£450.7bn
Risk-weighted assets	£99.0bn	£75.0bn	£1.3bn	£27.4bn	£202.7bn

1 Excludes reverse repos.

2 Excludes repos.

RETAIL

Retail offers a broad range of financial service products to personal and business banking customers, including current accounts, savings, mortgages, credit cards, unsecured loans, motor finance and leasing solutions. Its aim is to be the preferred financial partner for personal customers, by building deep and enduring relationships that meet more of its customers' financial needs and to improve their financial resilience throughout their lifetime, with personalised products and services. Retail operates a multi-brand and multi-channel strategy. It continues to simplify its business and provide more transparent products, helping to improve service levels and reduce conduct risk, while working within a prudent risk appetite.

Strategic progress

- Record net promoter scores across branch (80) and digital (71), reflecting continued improved customer satisfaction and the Group's focus on improving customer experience
- Expanded the availability of affordable and quality homes, with strong open mortgage book growth of £12.6 billion, including new lending of c.£9.0 billion to nearly 43,000 first-time buyers, almost reaching the Group's full year £10 billion 2021 target
- Strengthened our mortgage proposition with 1,500 Mortgage Advisers now having video capability, alongside face to face and phone, providing enhanced access and flexibility with 800 appointments per week outside branch opening hours
- Helped rebuild households' financial health and wellbeing through directing customers to free independent debt advice for more than 130,000 accounts
- Continued modernisation of the Group's technology architecture, demonstrated by being the first major bank to market giving customers the ability to settle their credit card balance via open banking. Over 850,000 uses since launch
- Maintained UK's largest branch network; piloting a scheme to strengthen free access to cash, with over 400 retail sites to date agreeing to provide cashback; supported industry commitments to access to cash through the BankHub pilot
- Flexed ways of working to meet customer demand, with 800 branch colleagues moving into customer service roles
- Progress towards deepening relationships via a 133 per cent increase in referrals to Schroders Personal Wealth (compared to the second half of 2020), allowing the Group to meet more of our customers' financial needs
- Renewed strategic relationship with Jaguar Land Rover, and extended contract with Tesla, contributing to the transition to a low carbon economy

Financial performance

- Net interest income of £4,218 million, in line with prior year. Benefit of mortgage and business banking growth, offset by the low rate environment, lower unsecured balances and reduced activity and demand during the pandemic
- Other income reduced by 12 per cent, including a market driven reduction in Lex fleet size. Operating lease depreciation decreased by 49 per cent, driven by strength in used vehicle prices and the smaller fleet size
- Operating costs 1 per cent higher; reflecting investment in IT and increased variable pay costs, compared to first half 2020. Remediation charges increased on prior year to £153 million
- Impairment significantly decreased, with a £17 million credit in the first half of 2021, underpinned by benign credit environment and strong asset quality, alongside an improved macroeconomic outlook for the UK
- Customer lending increased 3 per cent in the period driven by strong open mortgage book growth of £12.6 billion, partially offset by the continued run off of the closed mortgage book and lower cards balances
- Customer deposits increased 7 per cent in 2021, demonstrating the strength of the Group's trusted brands
- Risk-weighted assets up 1 per cent, in part influenced by model calibrations and a larger mortgage book, offset by house price growth and lower unsecured balances

Retail performance summary†

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	***Change %***	Half-year to 31 Dec 2020 £m	***Change %***
Net interest income	**4,218**	4,233	***—***	4,151	***2***
Other income	**812**	919	***(12)***	814	***—***
Operating lease depreciation	**(263)**	(518)	***49***	(338)	***22***
Net income	**4,767**	4,634	***3***	4,627	***3***
Operating costs	**(2,296)**	(2,277)	***(1)***	(2,484)	***8***
Remediation	**(153)**	(50)		(75)	
Total costs	**(2,449)**	(2,327)	***(5)***	(2,559)	***4***
Underlying profit before impairment	**2,318**	2,307	***—***	2,068	***12***
Impairment	**17**	(2,095)		(289)	
Underlying profit	**2,335**	212		1,779	***31***
Banking net interest margin†	**2.45%**	2.59%	***(14)bp***	2.45%	***—***
Average interest-earning banking assets†	**£358.3bn**	£342.3bn	***5***	£348.5bn	***3***
Asset quality ratio†	**(0.01)%**	1.23%	***(124)bp***	0.17%	***(18)bp***
Return on risk-weighted assets†	**4.75%**	0.43%	***432bp***	3.56%	***119bp***

	At 30 June 2021 £bn	At 30 June 2020 £bn	***Change %***	At 31 Dec 2020 £bn	***Change %***
Open mortgage book	**289.9**	267.1	***9***	277.3	***5***
Closed mortgage book	**15.3**	17.5	***(13)***	16.5	***(7)***
Credit cards	**13.6**	15.2	***(11)***	14.3	***(5)***
UK unsecured loans	**8.0**	8.2	***(2)***	8.0	***—***
UK Motor Finance	**14.4**	15.3	***(6)***	14.7	***(2)***
Business Banking	**8.8**	7.0	***26***	8.8	***—***
Overdrafts	**1.0**	1.0	***—***	0.9	***11***
Other[1]	**10.5**	9.7	***8***	10.4	***1***
Loans and advances to customers	**361.5**	341.0	***6***	350.9	***3***
Operating lease assets	**4.0**	4.1	***(2)***	3.9	***3***
Total customer assets	**365.5**	345.1	***6***	354.8	***3***
Current accounts	**107.3**	87.5	***23***	97.4	***10***
Relationship savings[2]	**186.1**	172.0	***8***	178.8	***4***
Tactical savings	**16.4**	12.7	***29***	14.0	***17***
Customer deposits	**309.8**	272.2	***14***	290.2	***7***
Risk-weighted assets	**100.0**	99.4	***1***	99.0	***1***

1 Includes Europe and run-off.

2 Includes Business Banking.

COMMERCIAL BANKING

Through its segmented client coverage model, Commercial Banking provides clients with a range of products and services such as lending, transaction banking, working capital management, risk management and debt capital markets. Commercial Banking is committed to becoming the best bank for business through its client-led, low-risk, capital efficient strategy. Continued investment in capabilities and digital propositions will enable the business to build a leading digital SME proposition and a strengthened Corporate and Institutional client franchise.

Strategic progress

- Supporting the UK recovery by investing in 1,100 business specialists to help business customers develop appropriate recovery plans
- Exceeded the full year target to help expand the availability of affordable and quality homes, delivering £2.1 billion of new funding support to the social housing sector in the first half, including £1.4 billion of ESG-linked funding via a new, dedicated sustainability team
- Expanded the funding available under the Group's discounted green finance initiatives from £3 billion to £5 billion in the first half of 2021 to support businesses transition to a low carbon economy, with more than £8.6 billion of total green finance delivered since 2016
- Strengthening the Markets proposition through an enhanced product offering and improved pricing capabilities; achieving growth in the share of FX products for core clients and improving GBP rates ranking[1] to sixth
- Increased the number of new clients using the Group's merchant services by 8 per cent through targeted investment, providing a simplified and quicker onboarding service
- Twofold increase in the number of corporate clients onboarded to the new cash management and payments platform through improved capabilities to meet client needs; remain on track for a threefold increase by the end of the year
- Enhanced digital platform delivering a 3 point improvement in SME and Retail Business Banking digital net promoter score, reflecting improved service and the commitment to be the best bank for business
- On track to achieve greater than 50 per cent growth in SME products originated via a digital source by the end of 2021

Financial performance

- Net interest income of £1,153 million down 6 per cent on prior year, reflecting lower deposit income given the rate environment, partly offset by disciplined asset pricing and portfolio optimisation across both sides of the balance sheet
- Other income up 3 per cent at £677 million, driven by higher levels of corporate financing activity offset by reductions in financial markets following the market volatility in the second quarter of last year
- Operating costs 1 per cent lower reflecting continued benefit from efficiency initiatives partly offset by investment and increased variable pay costs
- Impairment credit of £636 million in the first half of 2021, driven by the UK's improved macroeconomic outlook, improved credit outlook across Stage 1 and 2 and releases on a small number of specific single names in Stage 3
- Customer lending 2 per cent lower at £84.2 billion due to lower consumer activity and continued optimisation of the corporate portfolio
- Customer deposits 2 per cent higher at £149.2 billion, largely driven by the inflow of short-term balances in June 2021; focus remains on optimising for liquidity
- Risk-weighted assets decreased 3 per cent to £72.7 billion, driven by ongoing optimisation in the corporate book

[1] Combined Tradeweb and Bloomberg GBP IRS ranking.

Commercial Banking performance summary†

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	***Change %***	Half-year to 31 Dec 2020 £m	***Change %***
Net interest income	**1,153**	1,222	***(6)***	1,135	***2***
Other income	**677**	658	***3***	634	***7***
Operating lease depreciation	**(8)**	(8)	***—***	(20)	***60***
Net income	**1,822**	1,872	***(3)***	1,749	***4***
Operating costs	**(901)**	(906)	***1***	(945)	***5***
Remediation	**(169)**	(115)	***(47)***	(95)	***(78)***
Total costs	**(1,070)**	(1,021)	***(5)***	(1,040)	***(3)***
Underlying profit before impairment	**752**	851	***(12)***	709	***6***
Impairment	**636**	(1,519)		55	
Underlying profit (loss)	**1,388**	(668)		764	***82***
Banking net interest margin†	**2.96%**	2.92%	***4bp***	2.74%	***22bp***
Average interest-earning banking assets†	**£81.6bn**	£90.0bn	***(9)***	£87.2bn	***(6)***
Asset quality ratio†	**(1.48)%**	3.12%	***(460)bp***	(0.12)%	***(136)bp***
Return on risk-weighted assets†	**3.82%**	(1.70)%	***552bp***	1.98%	***184bp***

	At 30 June 2021 £bn	At 30 June 2020 £bn	***Change %***	At 31 Dec 2020 £bn	***Change %***
SME	**31.6**	31.4	***1***	31.8	***(1)***
Mid Corporates	**3.8**	4.6	***(17)***	4.1	***(7)***
Corporate and Institutional	**44.9**	55.0	***(18)***	46.0	***(2)***
Other	**3.9**	5.0	***(22)***	4.3	***(9)***
Loans and advances to customers	**84.2**	96.0	***(12)***	86.2	***(2)***
SME loans and advances including Retail Business Banking	**40.4**	38.4	***5***	40.6	***—***
Customer deposits	**149.2**	154.5	***(3)***	145.6	***2***
Current accounts including Retail Business Banking	**49.5**	44.2	***12***	47.6	***4***
Other customer deposits including Retail Business Banking	**124.5**	133.8	***(7)***	122.7	***1***
Customer deposits including Retail Business Banking	**174.0**	178.0	***(2)***	170.3	***2***
Risk-weighted assets	**72.7**	78.4	***(7)***	75.0	***(3)***

INSURANCE AND WEALTH

Insurance and Wealth offers insurance, investment and wealth management products and services. It supports over 10 million customers with assets under administration (AuA) of £185 billion and annualised annuity payments of over £1.1 billion. The Group continues to invest significantly in the development of the business, with the aim of becoming Britain's preferred financial partner for pensions and financial planning, helping to rebuild households' financial health and wellbeing, and meeting more of the Group customers' financial needs, increasingly with carbon neutral investments.

Strategic progress

- Announced acquisition of Embark, a fast growing investment and retirement platform business with c.£35 billion of AuA on behalf of c.410,000 consumer clients. Embark enhances the Group's capabilities to address the attractive mass market and self-directed Wealth segment, completing the Group's Wealth proposition, alongside Schroders Personal Wealth and the Group's investment in Cazenove Capital, and significantly strengthens the Group's offering in Retirement, an important growth market
- Deepened customer relationships via a 220 per cent increase in referrals to Schroders Personal Wealth (compared to the first half of 2020), allowing the Group to meet more of our customers' financial needs
- Progressed the Group's vision to be the preferred financial partner for personal customers, with £4 billion net new money in Insurance and Wealth open book AuA over the period (£125 billion as at 30 June 2021)
- Scottish Widows has invested in its first sustainability-linked loan, helping accelerate the transition to a low carbon economy and our ambition to halve the carbon footprint of our investments by 2030, on the path to net zero by 2050
- Launched a new digital protection journey through Halifax, with rollout to other Group platforms planned for the second half of 2021. Scottish Widows are proud to have maintained a protection claims payout rate of over 98 per cent during the pandemic, helping rebuild households' financial health and wellbeing
- Continued modernisation of the Group's technology architecture, with over 22 million views of insurance products each month in the Group's unique Single Customer View proposition (up from 17 million, 31 December 2020)

Financial performance

- LP&I sales have increased by 14 per cent (20 per cent excluding bulk annuities), driven by strong performance across most propositions. A change in workplace pensions business mix and assumptions has resulted in the associated income recognition being deferred to future years and a reduction in reported new business margin
- Continued momentum in workplace pensions has driven strong growth: scheme membership has increased by 5 per cent, year to date premiums received by 33 per cent, and AuA by 25 per cent (compared to 30 June 2020)
- Strong growth in volumes of protection business, with an increase of over 40 per cent in the number of new policies sold (compared to the first half of 2020), including a 10 per cent growth in sales through the Group's Retail channels
- Life and pensions experience includes £27 million positive impact from assumption changes (prior period included £91 million from methodology changes)
- Persistency experience for the first half of 2021 is £36 million favourable to expectation, driven by strong retention of business in workplace, planning and retirement, and longstanding LP&I
- Wealth income was resilient, with net interest income ahead of prior year, driven by higher customer deposits; Stockbroking income has also grown year on year, driven by continued high trading volumes
- Other income of £660 million reduced from £853 million in the first half of 2020 largely driven by reduced activity in the bulk annuity market and the non recurrence of a positive methodology change in the first half of 2020. Compared to the second half of 2020 other income increased by £263 million, primarily as a result of renewed activity in workplace pensions, and resilient experience compared to long term persistency, mortality and longevity assumptions
- Total costs increased by £131 million, driven by a £91 million regulatory fine relating to the way the Group historically communicated with home insurance customers regarding their renewals. Operating costs increased by £34 million due to investment in IT and increased variable pay costs. The increase compared to the second half of 2020 also reflects the timing of the Flood Re levy

Insurance capital

- Estimated Shareholder Solvency II ratio of 162 per cent, with 11 percentage points increase from 31 December 2020, reflecting the positive impact of recent long term rate increases, with positive earnings from in-force business
- Credit asset portfolio remains strong, rated 'A -' on average, well diversified and non-cyclical, with less than 1 per cent of assets backing annuities being sub investment grade or unrated

Insurance and Wealth performance summary[†]

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	*Change %*	Half-year to 31 Dec 2020 £m	*Change %*
Net interest income	**36**	14		35	***3***
Other income	**660**	853	***(23)***	397	***66***
Net income	**696**	867	***(20)***	432	***61***
Operating costs	**(493)**	(459)	***(7)***	(443)	***(11)***
Remediation	**(116)**	(19)		(31)	
Total costs	**(609)**	(478)	***(27)***	(474)	***(28)***
Underlying profit before impairment	**87**	389	***(78)***	(42)	
Impairment	**2**	(10)		1	
Underlying profit (loss)	**89**	379	***(77)***	(41)	
Life and pensions sales (PVNBP)[1,†]	**9,006**	7,880	***14***	6,649	***35***
General insurance underwritten new gross written premiums	**47**	56	***(16)***	55	***(15)***
General insurance underwritten total gross written premiums	**315**	327	***(4)***	335	***(6)***
General insurance combined ratio[2]	**114%**	89%	***25pp***	82%	***32pp***

	At 30 June 2021 £bn	At 30 June 2020 £bn	*Change %*	At 31 Dec 2020 £bn	*Change %*
Insurance Solvency II ratio[3]	**162%**	140%	***22pp***	151%	***11pp***
UK Wealth Loans and advances to customers	**1.0**	0.9	***11***	0.9	***11***
UK Wealth Customer deposits	**14.8**	13.5	***10***	14.1	***5***
UK Wealth Risk-weighted assets	**1.4**	1.3	***8***	1.3	***8***
Total customer assets under administration	**184.6**	159.6	***16***	171.9	***7***

Income by product group

	Half-year to 30 June 2021			Half-year to 30 June 2020			Half-year to 31 Dec 2020
	New business £m	**Existing business £m**	**Total £m**	New business £m	Existing business £m	Total £m	£m
Workplace, planning and retirement	**98**	**55**	**153**	121	62	183	144
Individual and bulk annuities	**43**	**38**	**81**	108	41	149	101
Protection	**14**	**10**	**24**	11	10	21	16
Longstanding LP&I	**7**	**150**	**157**	4	175	179	176
	162	**253**	**415**	244	288	532	437
Life and pensions experience and other items			**8**			72	(267)
General insurance			**158**			155	154
			581			759	324
Wealth			**115**			108	108
Net income			**696**			867	432

1 Present value of new business premiums. Further information on page 125.

2 Includes £91 million regulatory fine relating to the way the Group historically communicated with home insurance customers regarding their renewals. Excluding the fine this ratio was 84 per cent.

3 Equivalent estimated regulatory view of ratio (including With Profits funds) was 153 per cent (30 June 2020: 144 per cent).

CENTRAL ITEMS†

	Half-year to 30 June 2021	Half-year to 30 June 2020	***Change***	Half-year to 31 Dec 2020	***Change***
	£m	£m	***%***	£m	***%***
Net income	**279**	40		183	***52***
Operating costs	**(40)**	(57)	***30***	(14)	
Remediation	**13**	7	***86***	(1)	
Total costs	**(27)**	(50)	***46***	(15)	***(80)***
Underlying profit (loss) before impairment	**252**	(10)		168	***50***
Impairment	**1**	(194)		(196)	
Underlying profit (loss)	**253**	(204)		(28)	

Central items includes income and expenditure not attributed to divisions, including residual net interest income after transfer pricing (including the central recovery of the Group's distributions on other equity instruments), in period gains from gilt sales and the unwind of associated hedging costs, as well as the Group's equities business, including Lloyds Development Capital and the Business Growth Fund.

Net income in the period of £279 million improved by £239 million on the first six months of 2020 largely due to the non-recurrence of negative coronavirus-related revaluations taken in 2020 and strong performance in the equities businesses in the first half of 2021. Other income also included a significantly reduced gain of £23 million (half-year to 30 June 2020: £135 million) on the sale of gilts and other liquid assets.

Impairment for the period was a credit of £1 million compared to a charge of £194 million in the first half of 2020 and a charge of £196 million in the second half of 2020. The impairment charge for the first and second halves of 2020 included £200 million in each period in respect of uncertainty in the economic outlook not captured within modelled ECL allowances.

OTHER FINANCIAL INFORMATION

1. Reconciliation between statutory and underlying basis financial information

The tables below set out the reconciliation from the statutory results to the underlying basis results, the principles of which are set out in the basis of presentation.

		Removal of:			
	Statutory basis	Volatility and other items[1,2,3]	Insurance gross up[4]	PPI	Underlying basis[†]
Half-year to 30 June 2021	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**4,373**	**107**	**938**	**—**	**5,418**
Other income, net of insurance claims	**3,706**	**(263)**	**(1,026)**	**—**	**2,417**
Operating lease depreciation		**(271)**	**—**	**—**	**(271)**
Net income	**8,079**	**(427)**	**(88)**	**—**	**7,564**
Operating expenses[5]	**(4,897)**	**654**	**88**	**—**	**(4,155)**
Impairment[6]	**723**	**(67)**	**—**	**—**	**656**
Profit (loss) before tax	**3,905**	**160**	**—**	**—**	**4,065**
Half-year to 30 June 2020					
Net interest income	6,556	54	(1,132)	—	5,478
Other income, net of insurance claims	1,339	104	1,018	—	2,461
Operating lease depreciation		(526)	—	—	(526)
Net income	7,895	(368)	(114)	—	7,413
Operating expenses[5]	(4,668)	689	103	—	(3,876)
Impairment[6]	(3,829)	—	11	—	(3,818)
Profit (loss) before tax	(602)	321	—	—	(281)
Half-year to 31 December 2020					
Net interest income	4,193	120	982	—	5,295
Other income, net of insurance claims	3,038	61	(1,045)	—	2,054
Operating lease depreciation		(358)	—	—	(358)
Net income	7,231	(177)	(63)	—	6,991
Operating expenses[5]	(5,077)	833	71	85	(4,088)
Impairment[6]	(326)	(95)	(8)	—	(429)
Profit (loss) before tax	1,828	561	—	85	2,474

1 In the half-year to 30 June 2021 this comprises the effects of market volatility and asset sales (gain of £239 million); the amortisation of purchased intangibles (£35 million); restructuring (£255 million, including severance costs, property transformation, technology research and development, regulatory programmes and merger, acquisition and integration costs); and fair value unwind (losses of £109 million).

2 In the half-year to 30 June 2020 this comprises the effects of market volatility and asset sales (loss of £43 million); the amortisation of purchased intangibles (£34 million); restructuring (£133 million, including severance costs, property transformation, technology research and development, regulatory programmes and merger, acquisition and integration costs); and fair value unwind (losses of £111 million).

3 In the half-year to 31 December 2020 this comprises the effects of market volatility and asset sales (loss of £16 million); the amortisation of purchased intangibles (£35 million); restructuring (£388 million, including severance costs, property transformation, technology research and development, regulatory programmes and merger, acquisition and integration costs); and fair value unwind (losses of £122 million).

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

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

6 Certain derivative valuation adjustments associated with credit-impaired customers are included within the impairment charge on an underlying basis but reported within other income, net of insurance claims on a statutory basis.

OTHER FINANCIAL INFORMATION (continued)

1. Reconciliation between statutory and underlying basis financial information (continued)

The table below sets out the reconciliation from statutory profit before tax to underlying profit before impairment.

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Statutory profit before tax	**3,905**	(602)	1,828
Impairment	**(723)**	3,829	326
Volatility and other items[1]	**227**	321	656
Insurance gross up	**—**	(11)	8
Payment protection insurance	**—**	—	85
Underlying profit before impairment†	**3,409**	3,537	2,903

1 See page 28.

2. Banking net interest margin and average interest-earning assets†

	Half-year to 30 June 2021	Half-year to 30 June 2020	Half-year to 31 Dec 2020
Group net interest income – statutory basis (£m)	**4,373**	6,556	4,193
Insurance gross up (£m)	**938**	(1,132)	982
Volatility and other items (£m)	**107**	54	120
Group net interest income – underlying basis (£m)	**5,418**	5,478	5,295
Non-banking net interest expense (£m)	**58**	110	67
Banking net interest income – underlying basis (£m)	**5,476**	5,588	5,362
Net loans and advances to customers (£bn)[1]	**447.7**	440.4	440.2
Impairment provision and fair value adjustments (£bn)	**5.1**	6.6	6.3
Non-banking items:			
Fee-based loans and advances (£bn)	**(4.6)**	(6.5)	(5.1)
Other non-banking (£bn)	**(0.4)**	(2.4)	(2.6)
Gross banking loans and advances (£bn)	**447.8**	438.1	438.8
Averaging (£bn)	**(7.0)**	(4.9)	(2.2)
Average interest-earning banking assets (£bn)	**440.8**	433.2	436.6
Banking net interest margin (%)	**2.50**	2.59	2.44

1 Excludes reverse repos.

OTHER FINANCIAL INFORMATION (continued)

3. Volatility arising in the insurance business

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

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Insurance volatility	**275**	(393)	173
Policyholder interests volatility	**214**	(205)	131
Total volatility	**489**	(598)	304
Insurance hedging arrangements	**(340)**	228	(156)
Total	**149**	(370)	148

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

Insurance volatility movements in the first half of 2021 were largely driven by an increase in global equity markets and narrowing gilt spreads. Although the Group manages its exposures to equity, interest rate, foreign currency exchange rate, inflation and market movements within the Insurance division, it does so by balancing the importance of managing the impacts on both capital and earnings volatility. For example, equity market movements are hedged within Insurance on a Solvency II capital basis and whilst this also reduces the IFRS earnings exposure to equity market movements, the hedge works to a lesser extent from an IFRS earnings perspective.

4. Changes in insurance assumptions and methodology

The following impacts from assumption changes are included within Insurance and Wealth other operating income.

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Persistency	**—**	—	(74)
Mortality, longevity and morbidity	**34**	—	52
Expense assumptions	**(29)**	—	(124)
Other	**22**	—	(5)
Total assumption changes	**27**	—	(151)
Methodology changes	**—**	91	—
Total assumption and methodology changes	**27**	91	(151)

Key life and pensions assumptions and methodologies are formally updated through the annual basis review in the fourth quarter of each year. However, assumptions are monitored throughout the year and are updated at half year where there is a compelling reason to do so.

Current period changes reflect updated annuitant longevity assumptions, increased future short-term committed expenditure on specific projects and an update to reinsurance recovery assumptions.

OTHER FINANCIAL INFORMATION (continued)

5. Tangible net assets per share†

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

	At 30 June 2021	At 30 June 2020	At 31 Dec 2020
	£m	£m	£m
Ordinary shareholders' equity	**45,761**	42,734	43,278
Goodwill	**(2,320)**	(2,324)	(2,320)
Intangible assets	**(4,299)**	(3,985)	(4,140)
Purchased value of in-force business	**(209)**	(234)	(221)
Other, including deferred tax effects	**552**	309	459
Tangible net assets	**39,485**	36,500	37,056
Ordinary shares in issue, excluding own shares	**70,956m**	70,735m	70,812m
Tangible net assets per share	**55.6p**	51.6p	52.3p

6. Return on tangible equity†

As announced at the full year results, the Group has revised its definition of return on tangible equity. Statutory profit after tax is adjusted to deduct profit attributable to non-controlling interests and other equity holders and is divided by average tangible equity.

	Half-year to 30 June 2021	Half-year to 30 June 2020	Half-year to 31 Dec 2020
Average shareholders' equity (£bn)	**44.2**	43.7	43.1
Average intangible assets (£bn)	**(6.3)**	(6.2)	(6.3)
Average tangible equity (£bn)	**37.9**	37.5	36.8
Profit (loss) attributable to ordinary shareholders (£m)[1]	**3,611**	(234)	1,099
Return on tangible equity (%)[1,†]	**19.2**	(1.3)	5.9

1 Revised basis, half-year to 30 June 2020 and half-year to 31 December 2020 restated.

OTHER FINANCIAL INFORMATION (continued)

7. Support measures

Retail payment holiday characteristics[1]

	Mortgages		Cards		Loans		Motor		Total	
	000s	**£bn**	**000s**	**£bn**	**000s**	**£bn**	**000s**	**£bn**	**000s**	**£bn**
Total payment holidays granted	**491**	**59.1**	**341**	**1.7**	**304**	**2.4**	**161**	**2.0**	**1,297**	**65.1**
First payment holiday still in force	**0**	**0.1**	**1**	**0.0**	**0**	**0.0**	**0**	**0.0**	**2**	**0.1**
Matured payment holidays – repaying	**460**	**55.2**	**290**	**1.4**	**274**	**2.2**	**149**	**1.8**	**1,173**	**60.6**
Matured payment holidays – extended	**2**	**0.2**	**1**	**0.0**	**1**	**0.0**	**1**	**0.0**	**5**	**0.3**
Matured payment holidays – missed payment	**29**	**3.6**	**48**	**0.2**	**29**	**0.2**	**11**	**0.2**	**116**	**4.2**
As a percentage of total matured										
Matured payment holidays – repaying	**94%**	**94%**	**85%**	**86%**	**90%**	**91%**	**92%**	**90%**	**91%**	**93%**
Matured payment holidays – extended	**0.3%**	**0.4%**	**0.3%**	**0.4%**	**0.2%**	**0.3**	**0.7%**	**1.1%**	**0.4%**	**0.4%**
Matured payment holidays – missed payment	**6%**	**6%**	**14%**	**14%**	**9%**	**9%**	**7%**	**9%**	**9%**	**6%**

1 Mortgages, credit cards and personal loans at 3 July 2021; Motor finance at 6 July 2021. Analysis of mortgage payment holidays excludes St James Place, Intelligent Finance and Tesco; Motor finance payment holidays excludes Lex Autolease. Total payment holidays granted are equal to the sum of first payment holiday still in force and matured payment holidays. Totals and percentages calculated using unrounded numbers.

RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

The significant risks faced by the Group are detailed below. There has been no change to the definition of these risks from those disclosed in the Group's 2020 Annual Report and Accounts.

The external risks faced by the Group may also impact the success of delivering against the Group's long-term strategic objectives. They include, but are not limited to the coronavirus pandemic, global macro-economic conditions and regulatory developments.

The coronavirus pandemic has had an impact on all risk types and continues to be a major area of focus. The Group responded quickly to the challenges faced, putting in place risk mitigation strategies and refining investment and strategic plans. Transition planning remains a key focus in ensuring that the Group continues to protect colleagues and services to customers as the situation continues to evolve and in ensuring that the lessons learned from the pandemic are embedded into future working practices.

The Group is participating in the 2021 Bank of England Biennial Exploratory Scenario on Climate (CBES) for submission in October. The scope is to consider credit losses under three different temperature scenarios over a thirty year horizon, and the strategic actions the Group could take to mitigate Climate Risk. The CBES may be used to inform FPC and PRA supervision and will not be used to set capital requirements.

The Group's principal risks and uncertainties are reviewed and reported regularly to the Board in alignment with the Group's Enterprise Risk Management Framework.

Climate – The risk that the Group experiences losses and/or reputational damage as a result of climate change, either directly or through its customers. These losses may be realised from physical events, the required adaptation in transitioning to a low carbon economy, or as a consequence of the responses to managing these changes.

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

Credit – The risk that parties with whom the Group has contracted fail to meet their financial obligations (both on and off-balance sheet).

Funding and liquidity – Funding risk is defined as the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost.

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

Insurance underwriting – The risk of adverse developments in the timing, frequency and severity of claims for insured/ underwritten events and in customer behaviour, leading to reductions in earnings and/or value.

Change/execution – The risk that, in delivering its change agenda, the Group fails to ensure compliance with laws and regulation, maintain effective customer service and availability and/or operation within the Group's risk appetite.

Conduct – The risk of customer detriment across the customer lifecycle including: failures in product management, distribution and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Data – The risk of the Group failing to effectively govern, manage and control its data (including data processed by third party suppliers), leading to unethical decisions, poor customer outcomes, loss of value to the Group and mistrust.

Governance – The risk that the Group's organisational infrastructure fails to provide robust oversight of decision-making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

People – The risk that the Group fails to provide an appropriate colleague and customer-centric culture, supported by robust reward and wellbeing policies and processes, effective leadership to manage colleague resources, effective talent and succession management and robust control to ensure all colleague-related requirements are met.

Operational resilience – The risk that the Group fails to design resilience into business operations, underlying infrastructure and controls (people, process, technology) so that it is able to withstand external or internal events which could impact the continuation of operations and fails to respond in a way which meets customer and stakeholder expectations and needs when the continuity of operations is compromised.

Operational – The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

Regulatory and legal – The risk of financial penalties, regulatory censure, criminal or civil enforcement action or customer detriment as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.

Strategic – The risk which results from:

- Incorrect assumptions about internal or external operating environments
- Failure to respond or the inappropriate strategic response to material changes in the external or internal operating environments
- Failure to understand the potential impact of strategic responses and business plans on existing risk types

CREDIT RISK PORTFOLIO

Overview

The Group has continued to actively support its customers throughout the pandemic with a range of flexible options and payment holidays across major products, as well as lending through the various UK Government support schemes.

The macroeconomic outlook has improved and as the UK shows signs of exiting the crisis, the Group's focus is now on supporting its customers to recover.

The Group's lending portfolios were well positioned entering the crisis and we retain a prudent approach to credit risk appetite and risk management, with robust LTVs in our secured portfolios. Considering the external environment, flows of assets into arrears, defaults and write-off have remained at low levels.

It is recognised that Government support measures mean that the true underlying risk may not be reflected in asset performance and there is an expectation of increased arrears and defaults as these various arrangements, designed to alleviate short-term financial pressure, come to an end.

The Group has participated fully in UK Government lending schemes, including the Bounce Back Loan Scheme and the Coronavirus Business Interruption Loan Scheme, where UK Government guarantees are in place at 100 per cent and 80 per cent, respectively. Repayments under these schemes have started to become due, which will be coupled with the withdrawal of Government support schemes in the second half of 2021. The level of arrears is therefore being carefully monitored, and the Group will continue to review customer trends and indicators for early signs of distress.

The net impairment credit in the first half of 2021 was £656 million, compared to a charge of £3,818 million in the first half of 2020. The first half credit resulted from an £837 million release of expected credit loss (ECL) allowances driven by improvements to the macroeconomic outlook in the UK, combined with robust credit performance, with a low run-rate impairment charge of £252 million given the continued benign credit environment.

As a result, the Group's ECL allowance on loans and advances to customers reduced in the period from £6,832 million to £5,555 million, of which £837 million resulted from improvements to the economic outlook, including the impact of the extension of the Government's Coronavirus Job Retention Scheme in the first quarter of 2021. Reductions in Commercial Banking ECL allowances also reflect improved outcomes on restructuring cases, reduction in Stage 2 exposures and lower flows to default.

Stage 2 loans and advances to customers reduced from £60,514 million to £54,129 million, and as a percentage of total lending reduced by 1.3 percentage points to 10.7 per cent (31 December 2020: 12.0 per cent), predominantly reflecting the improvement in the Group's forward looking macroeconomic assumptions. Of these, 88.8 per cent are up to date (31 December 2020: 88.9 per cent). Stage 2 coverage reduced to 3.8 per cent (31 December 2020: 4.5 per cent).

Stage 3 loans and advances reduced in the period to £8,616 million (31 December 2020: £9,089 million), and as a percentage of total lending reduced to 1.7 per cent (31 December 2020: 1.8 per cent). Stage 3 coverage reduced by 3.0 percentage points to 25.6 per cent (31 December 2020: 28.6 per cent) largely driven by a small number of single name releases in Commercial Banking, including on coronavirus impacted restructuring cases and favourable asset price inflation benefiting the UK Mortgages and UK Motor Finance portfolios in the Retail division.

Prudent risk appetite and risk management

- The Group continues to take a prudent approach to credit risk and a through-the-cycle credit risk appetite, whilst working closely with customers to help them through and recover from the crisis
- Sector and asset class concentrations within the portfolios are closely monitored and controlled, with mitigating actions taken where appropriate. Sector and product caps limit exposure to certain higher risk and vulnerable sectors and asset classes
- The Group's effective risk management seeks to ensure early identification and management of customers and counterparties who may be showing signs of distress
- As the UK starts to exit the crisis, the Group will continue to work closely with its customers to ensure they receive the appropriate level of support, including where repayments under the UK Government scheme lending fall due

CREDIT RISK PORTFOLIO (continued)

Impairment charge by division - underlying basis

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	***Change %***	Half-year to 31 Dec 2020 £m	***Change %***
UK Mortgages	**(175)**	603		(125)	***(40)***
Credit cards	**67**	656	***90***	144	***53***
Loans and overdrafts	**130**	462	***72***	277	***53***
UK Motor Finance	**(40)**	241		(15)	
Other	**1**	133		8	***88***
Retail	**(17)**	2,095		289	
SME	**(146)**	257		7	
Other	**(490)**	1,262		(62)	
Commercial Banking	**(636)**	1,519		(55)	
Insurance and Wealth	**(2)**	10		(1)	
Central items	**(1)**	194		196	
Total impairment (credit) charge†	**(656)**	3,818		429	
Asset quality ratio†	**(0.30)%**	1.73%	***(203)bp***	0.19%	***(49)bp***

Credit Risk basis of presentation

The analyses which follow have been presented on two bases; the statutory basis which is consistent with the presentation in the Group's accounts and the underlying basis which is used for internal management purposes. A reconciliation between the two bases has been provided.

In the following statutory basis tables, purchased or originated credit-impaired (POCI) assets include a fixed pool of mortgages that were purchased as part of the HBOS acquisition at a deep discount to face value reflecting credit losses incurred from the point of origination to the date of acquisition. The residual expected credit loss (ECL) allowance and resulting low coverage ratio on POCI assets reflects further deterioration in the creditworthiness from the date of acquisition. Over time, these POCI assets will run off as the loans redeem, pay down or losses are crystallised.

The Group uses the underlying basis to monitor the creditworthiness of the lending portfolio and related ECL allowances because it provides a better indication of the credit performance of the POCI assets purchased as part of the HBOS acquisition. The underlying basis assumes that the lending assets acquired as part of a business combination were originated by the Group and are classified as either Stage 1, 2 or 3 according to the change in credit risk over the period since origination. Underlying ECL allowances have been calculated accordingly.

CREDIT RISK PORTFOLIO (continued)

Group total expected credit loss allowance

	Statutory basis		Underlying basis	
	At 30 June 2021	At 31 Dec 2020	**At 30 June 2021**	At 31 Dec 2020
	£m	£m	**£m**	£m
Customer related balances				
Drawn	**4,672**	5,760	**5,197**	6,373
Undrawn	**359**	459	**358**	459
	5,031	6,219	**5,555**	6,832
Other assets	**27**	28	**27**	28
Total ECL allowance	**5,058**	6,247	**5,582**	6,860

Reconciliation between statutory and underlying basis of Group gross loans and advances to customers and expected credit loss allowances on drawn balances

	Gross loans and advances to customers					Expected credit loss allowances on drawn balances				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 30 June 2021										
Underlying basis	**442,751**	**54,129**	**8,616**	**—**	**505,496**	**1,196**	**1,902**	**2,099**	**—**	**5,197**
POCI assets	**(1,854)**	**(8,100)**	**(2,433)**	**12,387**	**—**	**(2)**	**(269)**	**(420)**	**691**	**—**
Acquisition fair value adjustment	**27**	**5**	**1**	**(501)**	**(468)**	**(8)**	**(12)**	**(4)**	**(501)**	**(525)**
	(1,827)	**(8,095)**	**(2,432)**	**11,886**	**(468)**	**(10)**	**(281)**	**(424)**	**190**	**(525)**
Statutory basis	**440,924**	**46,034**	**6,184**	**11,886**	**505,028**	**1,186**	**1,621**	**1,675**	**190**	**4,672**
At 31 December 2020										
Underlying basis	435,526	60,514	9,089	—	505,129	1,385	2,493	2,495	—	6,373
POCI assets	(1,625)	(8,864)	(2,600)	13,089	—	(3)	(330)	(506)	839	—
Acquisition fair value adjustment	42	9	1	(578)	(526)	(10)	(18)	(7)	(578)	(613)
	(1,583)	(8,855)	(2,599)	12,511	(526)	(13)	(348)	(513)	261	(613)
Statutory basis	433,943	51,659	6,490	12,511	504,603	1,372	2,145	1,982	261	5,760

CREDIT RISK PORTFOLIO (continued)

Movements in Group total expected credit loss allowance – statutory basis

	ECL at 30 June 2021 £m	**Net ECL decrease £m**	**Write-offs and other £m**	**Income statement charge (credit) £m**	ECL at 31 Dec 2020 £m
UK Mortgages	**905**	**(122)**	**53**	**(175)**	1,027
Credit cards	**802**	**(121)**	**(188)**	**67**	923
Loans and overdrafts	**606**	**(109)**	**(167)**	**58**	715
UK Motor Finance	**434**	**(67)**	**(27)**	**(40)**	501
Other	**211**	**(18)**	**(19)**	**1**	229
Retail	**2,958**	**(437)**	**(348)**	**(89)**	3,395
SME	**347**	**(155)**	**(9)**	**(146)**	502
Other	**1,303**	**(597)**	**(109)**	**(488)**	1,900
Commercial Banking	**1,650**	**(752)**	**(118)**	**(634)**	2,402
Other	**450**	**—**	**—**	**—**	450
Total[1]	**5,058**	**(1,189)**	**(466)**	**(723)**	6,247

1 Total ECL includes £27 million relating to other non customer-related assets (31 December 2020: £28 million).

Movements in Group total expected credit loss allowance – underlying basis

	ECL at 30 June 2021 £m	**Net ECL decrease £m**	**Write-offs and other £m**	**Income statement charge (credit) £m**	ECL at 31 Dec 2020 £m
UK Mortgages	**1,406**	**(199)**	**(24)**	**(175)**	1,605
Credit cards	**825**	**(133)**	**(200)**	**67**	958
Loans and overdrafts	**606**	**(109)**	**(239)**	**130**	715
UK Motor Finance	**434**	**(67)**	**(27)**	**(40)**	501
Other	**211**	**(18)**	**(19)**	**1**	229
Retail	**3,482**	**(526)**	**(509)**	**(17)**	4,008
SME	**347**	**(155)**	**(9)**	**(146)**	502
Other	**1,303**	**(597)**	**(107)**	**(490)**	1,900
Commercial Banking	**1,650**	**(752)**	**(116)**	**(636)**	2,402
Other	**450**	**—**	**3**	**(3)**	450
Total[1]	**5,582**	**(1,278)**	**(622)**	**(656)**	6,860

1 Total ECL includes £27 million relating to other non customer-related assets (31 December 2020: £28 million).

CREDIT RISK PORTFOLIO (continued)

Group loans and advances to customers and expected credit loss allowances – statutory basis

At 30 June 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 2 as % of total	Stage 3 as % of total
Loans and advances to customers							
UK Mortgages	**262,541**	**29,770**	**1,924**	**11,886**	**306,121**	**9.7**	**0.6**
Credit cards	**10,956**	**2,936**	**323**	**—**	**14,215**	**20.7**	**2.3**
Loans and overdrafts	**7,782**	**1,413**	**312**	**—**	**9,507**	**14.9**	**3.3**
UK Motor Finance	**12,347**	**2,272**	**233**	**—**	**14,852**	**15.3**	**1.6**
Other	**18,074**	**1,203**	**244**	**—**	**19,521**	**6.2**	**1.2**
Retail	**311,700**	**37,594**	**3,036**	**11,886**	**364,216**	**10.3**	**0.8**
SME	**27,952**	**3,139**	**863**	**—**	**31,954**	**9.8**	**2.7**
Other	**46,292**	**5,265**	**2,215**	**—**	**53,772**	**9.8**	**4.1**
Commercial Banking	**74,244**	**8,404**	**3,078**	**—**	**85,726**	**9.8**	**3.6**
Insurance and Wealth	**877**	**36**	**63**	**—**	**976**	**3.7**	**6.5**
Central items[1]	**54,103**	**—**	**7**	**—**	**54,110**	**—**	**—**
Total gross lending	**440,924**	**46,034**	**6,184**	**11,886**	**505,028**	**9.1**	**1.2**
ECL allowance on drawn balances	**(1,186)**	**(1,621)**	**(1,675)**	**(190)**	**(4,672)**		
Net balance sheet carrying value	**439,738**	**44,413**	**4,509**	**11,696**	**500,356**		
Group ECL allowance (drawn and undrawn)							
UK Mortgages	**129**	**411**	**175**	**190**	**905**	**45.4**	**19.3**
Credit cards	**200**	**462**	**140**	**—**	**802**	**57.6**	**17.5**
Loans and overdrafts	**178**	**277**	**151**	**—**	**606**	**45.7**	**24.9**
UK Motor Finance[2]	**154**	**129**	**151**	**—**	**434**	**29.7**	**34.8**
Other	**51**	**105**	**55**	**—**	**211**	**49.8**	**26.1**
Retail	**712**	**1,384**	**672**	**190**	**2,958**	**46.8**	**22.7**
SME	**106**	**129**	**112**	**—**	**347**	**37.2**	**32.3**
Other	**131**	**286**	**883**	**—**	**1,300**	**22.0**	**67.9**
Commercial Banking	**237**	**415**	**995**	**—**	**1,647**	**25.2**	**60.4**
Insurance and Wealth	**9**	**1**	**11**	**—**	**21**	**4.8**	**52.4**
Central items	**400**	**—**	**5**	**—**	**405**	**—**	**1.2**
Total ECL allowance (drawn and undrawn)	**1,358**	**1,800**	**1,683**	**190**	**5,031**	**35.8**	**33.5**
Group ECL allowances (drawn and undrawn) as a % of loans and advances to customers[3]							
UK Mortgages	**—**	**1.4**	**9.1**	**1.6**	**0.3**		
Credit cards	**1.8**	**15.7**	**55.3**	**—**	**5.7**		
Loans and overdrafts	**2.3**	**19.6**	**62.4**	**—**	**6.4**		
UK Motor Finance	**1.2**	**5.7**	**64.8**	**—**	**2.9**		
Other	**0.3**	**8.7**	**41.4**	**—**	**1.1**		
Retail	**0.2**	**3.7**	**24.1**	**1.6**	**0.8**		
SME	**0.4**	**4.1**	**15.2**	**—**	**1.1**		
Other	**0.3**	**5.4**	**40.0**	**—**	**2.4**		
Commercial Banking	**0.3**	**4.9**	**33.7**	**—**	**1.9**		
Insurance and Wealth	**1.0**	**2.8**	**17.5**	**—**	**2.2**		
Central items	**0.7**	**—**	**71.4**	**—**	**0.7**		
Total ECL allowances (drawn and undrawn) as a % of loans and advances to customers	**0.3**	**3.9**	**29.0**	**1.6**	**1.0**		

1 Includes reverse repos of £52.7 billion.

2 UK Motor Finance for Stages 1 and 2 include £136 million relating to provisions against residual values of vehicles subject to finance leasing agreements. These provisions are included within the calculation of coverage ratios.

3 Total and Stage 3 ECL allowances as a percentage of drawn balances exclude loans in recoveries in Credit cards of £70 million, Loans and overdrafts of £70 million, Retail other of £111 million, SME of £124 million and Commercial Banking other of £5 million.

CREDIT RISK PORTFOLIO (continued)

Group loans and advances to customers and expected credit loss allowances – statutory basis (continued)

At 31 December 2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 2 as % of total	Stage 3 as % of total
Loans and advances to customers							
UK Mortgages	251,418	29,018	1,859	12,511	294,806	9.8	0.6
Credit cards	11,496	3,273	340	—	15,109	21.7	2.3
Loans and overdrafts	7,710	1,519	307	—	9,536	15.9	3.2
UK Motor Finance	12,786	2,216	199	—	15,201	14.6	1.3
Other	17,879	1,304	184	—	19,367	6.7	1.0
Retail	301,289	37,330	2,889	12,511	354,019	10.5	0.8
SME	27,015	4,500	791	—	32,306	13.9	2.4
Other	43,543	9,816	2,733	—	56,092	17.5	4.9
Commercial Banking	70,558	14,316	3,524	—	88,398	16.2	4.0
Insurance and Wealth	832	13	70	—	915	1.4	7.7
Central items[1]	61,264	—	7	—	61,271	—	—
Total gross lending	433,943	51,659	6,490	12,511	504,603	10.2	1.3
ECL allowance on drawn balances	(1,372)	(2,145)	(1,982)	(261)	(5,760)		
Net balance sheet carrying value	432,571	49,514	4,508	12,250	498,843		
Group ECL allowance (drawn and undrawn)							
UK Mortgages	107	468	191	261	1,027	45.6	18.6
Credit cards	240	530	153	—	923	57.4	16.6
Loans and overdrafts	224	344	147	—	715	48.1	20.6
UK Motor Finance[2]	197	171	133	—	501	34.1	26.5
Other	46	124	59	—	229	54.1	25.8
Retail	814	1,637	683	261	3,395	48.2	20.1
SME	142	234	126	—	502	46.6	25.1
Other	217	507	1,169	—	1,893	26.8	61.8
Commercial Banking	359	741	1,295	—	2,395	30.9	54.1
Insurance and Wealth	11	1	11	—	23	4.3	47.8
Central items	400	—	6	—	406	—	1.5
Total ECL allowance (drawn and undrawn)	1,584	2,379	1,995	261	6,219	38.3	32.1
Group ECL allowances (drawn and undrawn) as a % of loans and advances to customers[3]							
UK Mortgages	—	1.6	10.3	2.1	0.3		
Credit cards	2.1	16.2	56.0	—	6.1		
Loans and overdrafts	2.9	22.6	64.2	—	7.6		
UK Motor Finance	1.5	7.7	66.8	—	3.3		
Other	0.3	9.5	39.3	—	1.2		
Retail	0.3	4.4	25.2	2.1	1.0		
SME	0.5	5.2	19.1	—	1.6		
Other	0.5	5.2	42.9	—	3.4		
Commercial Banking	0.5	5.2	38.2	—	2.7		
Insurance and Wealth	1.3	7.7	15.7	—	2.5		
Central items	0.7	—	85.7	—	0.7		
Total ECL allowances (drawn and undrawn) as a % of loans and advances to customers	0.4	4.6	32.3	2.1	1.2		

1 Includes reverse repos of £58.6 billion.

2 UK Motor Finance for Stages 1 and 2 include £192 million relating to provisions against residual values of vehicles subject to finance leasing agreements. These provisions are included within the calculation of coverage ratios.

3 Total and Stage 3 ECL allowances as a percentage of drawn balances exclude loans in recoveries in Credit cards of £67 million, Loans and overdrafts of £78 million, Retail other of £34 million, SME of £132 million and Commercial Banking other of £6 million.

CREDIT RISK PORTFOLIO (continued)

Group loans and advances to customers and expected credit loss allowances – underlying basis

At 30 June 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 2 as % of total	Stage 3 as % of total
Loans and advances to customers						
UK Mortgages	**264,395**	**37,870**	**4,357**	**306,622**	**12.4**	**1.4**
Credit cards	**10,929**	**2,931**	**322**	**14,182**	**20.7**	**2.3**
Loans and overdrafts	**7,782**	**1,413**	**312**	**9,507**	**14.9**	**3.3**
UK Motor Finance	**12,347**	**2,272**	**233**	**14,852**	**15.3**	**1.6**
Other	**18,074**	**1,203**	**244**	**19,521**	**6.2**	**1.2**
Retail[1]	**313,527**	**45,689**	**5,468**	**364,684**	**12.5**	**1.5**
SME	**27,952**	**3,139**	**863**	**31,954**	**9.8**	**2.7**
Other	**46,292**	**5,265**	**2,215**	**53,772**	**9.8**	**4.1**
Commercial Banking	**74,244**	**8,404**	**3,078**	**85,726**	**9.8**	**3.6**
Insurance and Wealth	**877**	**36**	**63**	**976**	**3.7**	**6.5**
Central items[2]	**54,103**	**—**	**7**	**54,110**	**—**	**—**
Total gross lending	**442,751**	**54,129**	**8,616**	**505,496**	**10.7**	**1.7**
ECL allowance on drawn balances	**(1,196)**	**(1,902)**	**(2,099)**	**(5,197)**		
Net balance sheet carrying value	**441,555**	**52,227**	**6,517**	**500,299**		
Group ECL allowance (drawn and undrawn)						
UK Mortgages	**131**	**680**	**595**	**1,406**	**48.4**	**42.3**
Credit cards	**206**	**474**	**145**	**825**	**57.5**	**17.6**
Loans and overdrafts	**178**	**277**	**151**	**606**	**45.7**	**24.9**
UK Motor Finance[3]	**154**	**129**	**151**	**434**	**29.7**	**34.8**
Other	**51**	**105**	**55**	**211**	**49.8**	**26.1**
Retail[1]	**720**	**1,665**	**1,097**	**3,482**	**47.8**	**31.5**
SME	**106**	**129**	**112**	**347**	**37.2**	**32.3**
Other	**131**	**286**	**883**	**1,300**	**22.0**	**67.9**
Commercial Banking	**237**	**415**	**995**	**1,647**	**25.2**	**60.4**
Insurance and Wealth	**9**	**1**	**11**	**21**	**4.8**	**52.4**
Central items	**400**	**—**	**5**	**405**	**—**	**1.2**
Total ECL allowance (drawn and undrawn)	**1,366**	**2,081**	**2,108**	**5,555**	**37.5**	**37.9**
Group ECL allowances (drawn and undrawn) as a % of loans and advances to customers[4]						
UK Mortgages	**—**	**1.8**	**13.7**	**0.5**		
Credit cards	**1.9**	**16.2**	**57.5**	**5.8**		
Loans and overdrafts	**2.3**	**19.6**	**62.4**	**6.4**		
UK Motor Finance	**1.2**	**5.7**	**64.8**	**2.9**		
Other	**0.3**	**8.7**	**41.4**	**1.1**		
Retail[1]	**0.2**	**3.6**	**21.0**	**1.0**		
SME	**0.4**	**4.1**	**15.2**	**1.1**		
Other	**0.3**	**5.4**	**40.0**	**2.4**		
Commercial Banking	**0.3**	**4.9**	**33.7**	**1.9**		
Insurance and Wealth	**1.0**	**2.8**	**17.5**	**2.2**		
Central items	**0.7**	**—**	**71.4**	**0.7**		
Total ECL allowances (drawn and undrawn) as a % of loans and advances to customers	**0.3**	**3.8**	**25.6**	**1.1**		

1 Retail balances exclude the impact of the HBOS and MBNA acquisition related adjustments.

2 Includes reverse repos of £52.7 billion.

3 UK Motor Finance for Stages 1 and 2 include £136 million relating to provisions against residual values of vehicles subject to finance leasing agreements. These provisions are included within the calculation of coverage ratios.

4 Total and Stage 3 ECL allowances as a percentage of drawn balances exclude loans in recoveries in Credit cards of £70 million, Loans and overdrafts of £70 million, Retail other of £111 million, SME of £124 million and Commercial Banking other of £5 million.

CREDIT RISK PORTFOLIO (continued)

Group loans and advances to customers and expected credit loss allowances – underlying basis (continued)

At 31 December 2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 2 as % of total	Stage 3 as % of total
Loans and advances to customers						
UK Mortgages	253,043	37,882	4,459	295,384	12.8	1.5
Credit cards	11,454	3,264	339	15,057	21.7	2.3
Loans and overdrafts	7,710	1,519	307	9,536	15.9	3.2
UK Motor Finance	12,786	2,216	199	15,201	14.6	1.3
Other	17,879	1,304	184	19,367	6.7	1.0
Retail[1]	302,872	46,185	5,488	354,545	13.0	1.5
SME	27,015	4,500	791	32,306	13.9	2.4
Other	43,543	9,816	2,733	56,092	17.5	4.9
Commercial Banking	70,558	14,316	3,524	88,398	16.2	4.0
Insurance and Wealth	832	13	70	915	1.4	7.7
Central items[2]	61,264	—	7	61,271	—	—
Total gross lending	435,526	60,514	9,089	505,129	12.0	1.8
ECL allowance on drawn balances	(1,385)	(2,493)	(2,495)	(6,373)		
Net balance sheet carrying value	434,141	58,021	6,594	498,756		
Group ECL allowance (drawn and undrawn)						
UK Mortgages	110	798	697	1,605	49.7	43.4
Credit cards	250	548	160	958	57.2	16.7
Loans and overdrafts	224	344	147	715	48.1	20.6
UK Motor Finance[3]	197	171	133	501	34.1	26.5
Other	46	124	59	229	54.1	25.8
Retail[1]	827	1,985	1,196	4,008	49.5	29.8
SME	142	234	126	502	46.6	25.1
Other	217	507	1,169	1,893	26.8	61.8
Commercial Banking	359	741	1,295	2,395	30.9	54.1
Insurance and Wealth	11	1	11	23	4.3	47.8
Central items	400	—	6	406	—	1.5
Total ECL allowance (drawn and undrawn)	1,597	2,727	2,508	6,832	39.9	36.7
Group ECL allowances (drawn and undrawn) as a % of loans and advances to customers[4]						
UK Mortgages	—	2.1	15.6	0.5		
Credit cards	2.2	16.8	58.8	6.4		
Loans and overdrafts	2.9	22.6	64.2	7.6		
UK Motor Finance	1.5	7.7	66.8	3.3		
Other	0.3	9.5	39.3	1.2		
Retail[1]	0.3	4.3	22.5	1.1		
SME	0.5	5.2	19.1	1.6		
Other	0.5	5.2	42.9	3.4		
Commercial Banking	0.5	5.2	38.2	2.7		
Insurance and Wealth	1.3	7.7	15.7	2.5		
Central items	0.7	—	85.7	0.7		
Total ECL allowances (drawn and undrawn) as a % of loans and advances to customers	0.4	4.5	28.6	1.4		

1 Retail balances exclude the impact of the HBOS and MBNA acquisition related adjustments.

2 Includes reverse repos of £58.6 billion.

3 UK Motor Finance ECL for Stages 1 and 2 include £192 million relating to provisions against residual values of vehicles subject to finance leasing agreements. These provisions are included within the calculation of coverage ratios.

4 Total and Stage 3 ECL allowances as a percentage of drawn balances exclude loans in recoveries in Credit cards of £67 million, Loans and overdrafts of £78 million, Retail other of £34 million, SME of £132 million and Commercial Banking other of £6 million.

CREDIT RISK PORTFOLIO (continued)

Group Stage 2 loans and advances to customers – statutory basis

	Up to date				**1-30 days past due[2]**		**Over 30 days past due**		**Total**	
	PD movements		**Other[1]**							
	Gross lending	**ECL[3]**	**Gross lending**	**ECL[3]**	**Gross lending**	**ECL[3]**	**Gross lending**	**ECL[3]**	**Gross lending**	**ECL[3]**
At 30 June 2021	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
UK Mortgages	**23,034**	**191**	**3,630**	**122**	**1,491**	**32**	**1,615**	**66**	**29,770**	**411**
Credit cards	**2,640**	**356**	**189**	**68**	**77**	**22**	**30**	**16**	**2,936**	**462**
Loans and overdrafts	**854**	**162**	**396**	**54**	**127**	**43**	**36**	**18**	**1,413**	**277**
UK Motor Finance	**966**	**47**	**1,148**	**39**	**122**	**29**	**36**	**14**	**2,272**	**129**
Other	**494**	**58**	**586**	**33**	**64**	**9**	**59**	**5**	**1,203**	**105**
Retail	**27,988**	**814**	**5,949**	**316**	**1,881**	**135**	**1,776**	**119**	**37,594**	**1,384**
SME	**2,866**	**118**	**178**	**6**	**24**	**2**	**71**	**3**	**3,139**	**129**
Other	**5,028**	**281**	**89**	**1**	**56**	**3**	**92**	**1**	**5,265**	**286**
Commercial Banking	**7,894**	**399**	**267**	**7**	**80**	**5**	**163**	**4**	**8,404**	**415**
Insurance and Wealth	**17**	**—**	**18**	**1**	**—**	**—**	**1**	**—**	**36**	**1**
Central items	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**35,899**	**1,213**	**6,234**	**324**	**1,961**	**140**	**1,940**	**123**	**46,034**	**1,800**
At 31 December 2020										
UK Mortgages	22,569	215	3,078	131	1,648	43	1,723	79	29,018	468
Credit cards	2,924	408	220	76	93	27	36	19	3,273	530
Loans and overdrafts	959	209	388	68	126	45	46	22	1,519	344
UK Motor Finance	724	62	1,321	55	132	37	39	17	2,216	171
Other	512	56	651	44	69	14	72	10	1,304	124
Retail	27,688	950	5,658	374	2,068	166	1,916	147	37,330	1,637
SME	4,229	219	150	6	40	5	81	4	4,500	234
Other	9,505	501	97	3	37	2	177	1	9,816	507
Commercial Banking	13,734	720	247	9	77	7	258	5	14,316	741
Insurance and Wealth	1	—	12	1	—	—	—	—	13	1
Central items	—	—	—	—	—	—	—	—	—	—
Total	41,423	1,670	5,917	384	2,145	173	2,174	152	51,659	2,379

1 Includes forbearance, client and product-specific indicators not reflected within quantitative PD assessments.

2 Includes assets that have triggered PD movements, or other rules, given that being 1-29 days in arrears in and of itself is not a Stage 2 trigger.

3 Expected credit loss allowances on loans and advances to customers (drawn and undrawn).

CREDIT RISK PORTFOLIO (continued)

Group Stage 2 loans and advances to customers – underlying basis

	Up to date				1-30 days past due[2]		Over 30 days past due		Total	
	PD movements		Other[1]							
	Gross lending	ECL[3]	Gross lending	ECL[3]	Gross lending	ECL[3]	Gross lending	ECL[3]	Gross lending	ECL[3]
At 30 June 2021	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
UK Mortgages	**27,971**	**305**	**4,606**	**172**	**2,540**	**69**	**2,753**	**134**	**37,870**	**680**
Credit cards	**2,636**	**366**	**188**	**69**	**77**	**23**	**30**	**16**	**2,931**	**474**
Loans and overdrafts	**854**	**162**	**396**	**54**	**127**	**43**	**36**	**18**	**1,413**	**277**
UK Motor Finance	**966**	**47**	**1,148**	**39**	**122**	**29**	**36**	**14**	**2,272**	**129**
Other	**494**	**58**	**586**	**33**	**64**	**9**	**59**	**5**	**1,203**	**105**
Retail	**32,921**	**938**	**6,924**	**367**	**2,930**	**173**	**2,914**	**187**	**45,689**	**1,665**
SME	**2,866**	**118**	**178**	**6**	**24**	**2**	**71**	**3**	**3,139**	**129**
Other	**5,028**	**281**	**89**	**1**	**56**	**3**	**92**	**1**	**5,265**	**286**
Commercial Banking	**7,894**	**399**	**267**	**7**	**80**	**5**	**163**	**4**	**8,404**	**415**
Insurance and Wealth	**17**	**—**	**18**	**1**	**—**	**—**	**1**	**—**	**36**	**1**
Central items	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**40,832**	**1,337**	**7,209**	**375**	**3,010**	**178**	**3,078**	**191**	**54,129**	**2,081**
At 31 December 2020										
UK Mortgages	28,049	354	4,067	189	2,663	82	3,103	173	37,882	798
Credit cards	2,916	422	220	78	92	28	36	20	3,264	548
Loans and overdrafts	959	209	388	68	126	45	46	22	1,519	344
UK Motor Finance	724	62	1,321	55	132	37	39	17	2,216	171
Other	512	56	651	44	69	14	72	10	1,304	124
Retail	33,160	1,103	6,647	434	3,082	206	3,296	242	46,185	1,985
SME	4,229	219	150	6	40	5	81	4	4,500	234
Other	9,505	501	97	3	37	2	177	1	9,816	507
Commercial Banking	13,734	720	247	9	77	7	258	5	14,316	741
Insurance and Wealth	1	—	12	1	—	—	—	—	13	1
Central items	—	—	—	—	—	—	—	—	—	—
Total	46,895	1,823	6,906	444	3,159	213	3,554	247	60,514	2,727

1 Includes forbearance, client and product-specific indicators not reflected within quantitative PD assessments.

2 Includes assets that have triggered PD movements, or other rules, given that being 1-29 days in arrears in and of itself is not a Stage 2 trigger.

3 Expected credit loss allowances on loans and advances to customers (drawn and undrawn).

CREDIT RISK PORTFOLIO (continued)

ECL sensitivity to economic assumptions

The measurement of ECL reflects an unbiased probability-weighted range of possible future economic outcomes. The Group achieves this by generating four economic scenarios to reflect the range of outcomes; the central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario. The base case, upside and downside scenarios carry a 30 per cent weighting; the severe downside is weighted at 10 per cent. These assumptions can be found in note 2 on page 79 onwards.

The table below shows the Group's ECL for the upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted PD and hence the Stage 2 allocation is constant across all the scenarios. ECL applied through individual assessments and post-model adjustments is reported flat against each economic scenario, reflecting the basis on which they are evaluated.

Statutory basis	**Probability-weighted £m**	**Upside £m**	**Base case £m**	**Downside £m**	**Severe downside £m**
UK Mortgages	**905**	**544**	**684**	**1,100**	**2,064**
Other Retail	**2,053**	**1,896**	**2,009**	**2,152**	**2,355**
Commercial Banking	**1,650**	**1,395**	**1,527**	**1,799**	**2,340**
Other	**450**	**448**	**450**	**450**	**454**
At 30 June 2021	**5,058**	**4,283**	**4,670**	**5,501**	**7,213**
UK Mortgages	1,027	614	804	1,237	2,306
Other Retail	2,368	2,181	2,310	2,487	2,745
Commercial Banking	2,402	1,910	2,177	2,681	3,718
Other	450	448	450	450	456
At 31 December 2020	6,247	5,153	5,741	6,855	9,225

Underlying basis	**Probability-weighted £m**	**Upside £m**	**Base case £m**	**Downside £m**	**Severe downside £m**
UK Mortgages	**1,406**	**1,045**	**1,185**	**1,601**	**2,565**
Other Retail	**2,076**	**1,919**	**2,032**	**2,175**	**2,378**
Commercial Banking	**1,650**	**1,395**	**1,527**	**1,799**	**2,340**
Other	**450**	**448**	**450**	**450**	**454**
At 30 June 2021	**5,582**	**4,807**	**5,194**	**6,025**	**7,737**
UK Mortgages	1,605	1,192	1,382	1,815	2,884
Other Retail	2,403	2,216	2,345	2,522	2,780
Commercial Banking	2,402	1,910	2,177	2,681	3,718
Other	450	448	450	450	456
At 31 December 2020	6,860	5,766	6,354	7,468	9,838

CREDIT RISK PORTFOLIO (continued)

Retail

- The Retail portfolio has remained robust and well positioned throughout the coronavirus pandemic. Risk management has been enhanced since the last financial crisis, with strong affordability and indebtedness controls for both new and existing lending and a prudent risk appetite approach. This is evident in the significant improvement in credit quality and low arrears rates
- The Group has actively supported its Retail customers during the pandemic, through a range of propositions, such as payment holidays, while personal current account customers have had access to up to £500 interest free arranged overdrafts
- Nearly 1.3 million payment holidays, on £65.1 billion of lending, have been granted on Retail products during the pandemic, with c.7,000 remaining live. Over 93 per cent of expired payment holidays have now resumed payments, while 6 per cent are either in arrears or have been charged off
- The Group has taken targeted steps across the Retail product offering to implement tighter credit quality controls on key risk indicators such as indebtedness and credit scores to ensure that customers and the bank are protected
- Arrears rates across the portfolios remain low despite expiry of almost all payment holidays
- Although the macroeconomic outlook has improved, customers have been significantly impacted by the pandemic and credit performance is expected to worsen in coming months, consistent with the Group's economic assumptions, as the Government support measures come to an end and unemployment rises
- The Retail impairment credit in the first half of 2021 was £17 million, compared to a charge of £2,095 million in the first half of 2020. This significant decrease resulted from a £544 million release of expected credit loss (ECL) allowances driven by the UK's improved macroeconomic outlook, combined with a robust observed credit performance, with charges relating to flows to arrears and default remaining low despite expiry of almost all payment holidays. This impact compares favourably to the £1,517 million impairment charge to account for the deterioration in the macroeconomic outlook over the first half of 2020
- Existing IFRS 9 staging rules and triggers have been maintained across Retail from year end 2020 with the exception of minor changes to the Loans and Overdrafts portfolio to tighten criteria and align to the Credit cards portfolio. Transfers between stages have been primarily driven by credit risk rating movements and the estimated impact of the economic factors on a customer’s forward looking default risk
- Total Retail ECL allowance as a percentage of drawn loans and advances (coverage) has reduced slightly to 1.0 per cent (31 December 2020: 1.1 per cent) following the updates in the Group’s economic forecast. As at 30 June 2021, 47.8 per cent of total Retail ECL is reflected within Stage 2 under IFRS 9, representing cases which have observed a Significant Increase in Credit Risk since origination (SICR)
- Stage 2 loans and advances now comprise 12.5 per cent of the Retail portfolio (31 December 2020: 13.0 per cent), of which 87.2 per cent are up to date performing loans. Stage 2 ECL coverage has also decreased to 3.6 per cent (31 December 2020: 4.3 per cent) reflecting the improved macroeconomic outlook
- Stage 3 loans and advances have remained flat at 1.5 per cent of total loans and advances (31 December 2020: 1.5 per cent), Stage 3 ECL coverage decreased to 21.0 per cent (31 December 2020: 22.5 per cent) due to favourable asset price inflation (both observed and forecast), benefiting the UK Mortgages and UK Motor Finance portfolios in particular

CREDIT RISK PORTFOLIO (continued)

Portfolios

UK Mortgages

- The UK Mortgages portfolio is well positioned with low arrears and a low loan-to-value (LTV) profile. The Group has actively improved the quality of the portfolio over recent years using robust affordability and credit controls, whilst the balances of higher risk portfolios originated prior to 2008 have continued to reduce
- Whilst the housing market has remained resilient through the pandemic with continued strong customer demand, the Group has taken action to protect credit quality and participates in the Government guarantee scheme for greater than 90 per cent LTVs, which provides risk mitigation at the highest exposures
- Total loans and advances increased to £306.6 billion (31 December 2020: £295.4 billion), with a small reduction in average LTV to 43.1 per cent (31 December 2020: 43.5 per cent). The proportion of balances with an LTV greater than 90 per cent decreased to 0.4 per cent (31 December 2020: 0.6 per cent). The average LTV of new business decreased to 63.1 per cent (31 December 2020: 63.9 per cent)
- There was a net impairment credit of £175 million for the first half of 2021 compared to a charge of £603 million for the first half of 2020, reflecting improvements to the UK's macroeconomic outlook and in particular resilient house prices. Total ECL coverage remains flat at 0.5 per cent (31 December 2020: 0.5 per cent)
- Stage 2 loans and advances decreased to 12.4 per cent of the portfolio (31 December 2020: 12.8 per cent), and Stage 2 ECL coverage has reduced to 1.8 per cent (31 December 2020: 2.1 per cent). These impacts also reflect improvements in the UK's macroeconomic outlook, with a reduction in balances transferred into Stage 2 based on the forward looking view of their credit performance, in addition to favourable experience and house price assumptions
- Stage 3 ECL coverage decreased to 13.7 per cent (31 December 2020: 15.6 per cent) again due to favourable house price assumptions (both observed and forecast)

Credit cards

- Credit card balances decreased to £14.2 billion (31 December 2020: £15.1 billion) due to reduced levels of customer spending
- The credit card portfolio is a prime book which has performed well in recent years, with lower arrears rates compared to the High Street Bank peer group
- The impairment charge was £67 million for the first half of 2021 compared to a charge of £656 million for the first half of 2020, with overall ECL coverage decreasing to 5.8 per cent (31 December 2020: 6.4 per cent). These decreases are due to lower than anticipated arrears emergence, in conjunction with the improved outlook within the Group's economic forecast
- Stage 2 loans and advances have reduced to 20.7 per cent of the portfolio (31 December 2020: 21.7 per cent) and Stage 2 ECL coverage has reduced to 16.2 per cent (31 December 2020: 16.8 per cent). These impacts reflect improvements in the UK's macroeconomic outlook, most notably the more favourable unemployment forecast
- Stage 3 ECL coverage decreased to 57.5 per cent (31 December 2020: 58.8 per cent) due to a slight improvement in the mix of customers within Stage 3

Loans and overdrafts

- Loans and advances for personal current account and the personal loans portfolios held flat at £9.5 billion (31 December 2020: £9.5 billion) with some early signs of recovery in customer spend and demand for credit
- The impairment charge was £130 million for the first half of 2021, compared to £462 million for the first half of 2020. This decrease is again partly due to the improved outlook within the Group's macroeconomic forecasts in addition to lower than anticipated arrears emergence, reducing both Stage 2 ECL coverage to 19.6 per cent (31 December 2020: 22.6 per cent) and overall ECL coverage to 6.4 per cent (31 December 2020: 7.6 per cent)

CREDIT RISK PORTFOLIO (continued)

UK Motor Finance

- The UK Motor Finance portfolio decreased to £14.9 billion (31 December 2020: £15.2 billion) due to reduced market activity and new car supply issues as a result of the pandemic
- There was a net impairment credit of £40 million for the first half of 2021 compared to a charge of £241 million for the first half of 2020, reflecting improvements to the UK's macroeconomic outlook and in particular higher than expected used car prices. Overall ECL coverage has decreased to 2.9 per cent (31 December 2020: 3.3 per cent)
- Updates to Residual Value (RV) and Voluntary Termination (VT) risk held against Personal Contract Purchase (PCP) and Hire Purchase (HP) lending are included within the impairment charge. The improved macroeconomic outlook, supported by better than expected disposal experience, resulted in a net impairment credit of £41 million for RV and VT risk in the first half of 2021
- Stage 2 ECL coverage decreased to 5.7 per cent (31 December 2020: 7.7 per cent) and Stage 3 ECL coverage decreased to 64.8 per cent (31 December 2020: 66.8 per cent) due to the impact from updates to the Group's outlook on used car prices

Other

- Other loans and advances increased to £19.5 billion (31 December 2020: £19.4 billion)
- The impairment charge was £1 million for 2021 compared to £133 million for the first half of 2020, primarily due to the improved outlook within the Group's economic forecasts

CREDIT RISK PORTFOLIO (continued)

Retail UK Mortgages loans and advances to customers – statutory basis

	At 30 June 2021[1] £m	At 31 Dec 2020[1] £m
Mainstream	**245,147**	234,273
Buy-to-let	**50,907**	49,634
Specialist	**10,067**	10,899
Total	**306,121**	294,806

1 Balances include the impact of HBOS related acquisition adjustments.

Mortgages greater than three months in arrears, excluding repossessions – underlying basis

	Number of cases		Total mortgage accounts		Value of loans[1]		Total mortgage balances	
	At 30 June 2021 Cases	At 31 Dec 2020 Cases	At 30 June 2021 %	At 31 Dec 2020 %	At 30 June 2021 £m	At 31 Dec 2020 £m	At 30 June 2021 %	At 31 Dec 2020 %
Mainstream	**23,967**	25,014	**1.3**	1.4	**2,728**	2,777	**1.1**	1.2
Buy-to-let	**4,377**	4,598	**1.0**	1.1	**568**	602	**1.1**	1.2
Specialist	**5,983**	6,294	**7.6**	7.6	**1,002**	1,056	**9.8**	9.6
Total	**34,327**	35,906	**1.5**	1.5	**4,298**	4,435	**1.4**	1.5

1 Value of loans represents total gross book value of mortgages more than three months in arrears; the balances exclude the impact of HBOS acquisition adjustments.

The stock of repossessions decreased to 257 cases at 30 June 2021 compared to 343 cases at 31 December 2020.

CREDIT RISK PORTFOLIO (continued)

Period end and average LTVs across the Retail mortgage portfolios – underlying basis

At 30 June 2021	**Mainstream %**	**Buy-to-let %**	**Specialist %**	**Total %**
Less than 60%	**55.4**	**65.6**	**75.5**	**57.8**
60% to 70%	**18.9**	**25.0**	**14.9**	**19.8**
70% to 80%	**18.5**	**8.7**	**5.0**	**16.4**
80% to 90%	**6.8**	**0.4**	**1.5**	**5.6**
90% to 100%	**0.2**	**0.1**	**1.0**	**0.2**
Greater than 100%	**0.2**	**0.2**	**2.1**	**0.2**
Total	**100.0**	**100.0**	**100.0**	**100.0**
Average loan to value[1]:				
Stock of residential mortgages	**42.2**	**48.8**	**39.2**	**43.1**
New residential lending	**63.6**	**60.2**	**n/a**	**63.1**
At 31 December 2020				
Less than 60%	53.8	61.5	70.1	55.8
60% to 70%	18.3	25.0	16.1	19.3
70% to 80%	17.8	12.1	8.0	16.5
80% to 90%	9.6	0.9	2.3	7.8
90% to 100%	0.3	0.2	1.0	0.3
Greater than 100%	0.2	0.3	2.5	0.3
Total	100.0	100.0	100.0	100.0
Average loan to value[1]:				
Stock of residential mortgages	42.5	49.7	40.9	43.5
New residential lending	65.1	58.2	n/a	63.9

1 Average loan to value is calculated as total loans and advances as a percentage of the total indexed collateral of these loans and advances; the balances exclude the impact of HBOS acquisition adjustments.

CREDIT RISK PORTFOLIO (continued)

Commercial Banking

- Commercial Banking has actively supported its customers throughout the crisis, through a range of propositions, including capital repayment holidays, working capital line increases and financial covenant waivers, as well as supporting small businesses and corporates through full use of UK Government schemes
- Although the macroeconomic outlook has improved, the pandemic has resulted in widespread industry disruption, with some sectors such as travel, transportation, non-essential retail, leisure and hospitality particularly impacted. However, as a proportion of the Group's overall lending, exposure to these sectors remains limited
- The Group still expects recovery to be slower in a few of the impacted sectors and anticipates longer term structural changes in these, and a number of other sectors. Sector and credit risk appetite continue to be proactively managed to ensure the Group is protected and clients are supported in the right way
- Observed credit quality has been broadly stable in the first half of 2021, noting that this is likely to be influenced by the significant temporary support provided by the UK Government in light of the pandemic, which has had the potential to distort the underlying credit risk profile, particularly in the predominantly secured SME portfolio
- Commercial Banking has continued to support its more vulnerable clients early through focused risk management via the Group's Watchlist and Business Support framework
- The Group does anticipate a negative impact from the withdrawal of UK Government support measures in the second half of 2021. This may also be seen as repayments under UK Government support schemes start to become due, with an increase in arrears and defaults expected, consistent with macroeconomic expectations. It is anticipated that these will be protracted over a number of years, given the flexible payment deferral options available under the various UK Government lending schemes. The level of arrears is therefore being carefully monitored with early risk mitigation activities taken as appropriate
- Although significant uncertainties remain, the Group will continue to balance prudent risk appetite with ensuring support for financially viable clients on their road to recovery

Impairments

- There was a net impairment credit of £636 million in the first half of 2021, compared to a charge of £1,519 million in the first half of 2020. The credit was driven by the £293 million release of expected credit loss (ECL) allowances resulting from improvements to the UK's macroeconomic outlook; improved restructuring outcomes on cases managed within the Business Support Unit and other Stage 3 releases; lower balance sheet and credit quality improvements, including in Stage 2 exposures; and low levels of gross charges from cases flowing into default. As a result, ECL allowances reduced by £748 million to £1,647 million at 30 June 2021 (31 December 2020: £2,395 million)
- The Group recognises that credit quality has been partly supported by the temporary measures provided by the UK Government schemes and the ECL provision at 30 June 2021 assumes additional losses will emerge as the support subsides and structural change emerges in some sectors
- Stage 2 loans and advances reduced by £5,912 million to £8,404 million (31 December 2020: £14,316 million), largely driven by the improvement in the Group's forward looking economic assumptions, with 97.1 per cent of Stage 2 balances being current and up to date. As a result, Stage 2 loans as a proportion of total loans and advances to customers reduced to 9.8 per cent (31 December 2020: 16.2 per cent). Stage 2 ECL coverage was lower at 4.9 per cent (31 December 2020: 5.2 per cent) with the reduction in coverage a direct result of the forward look multiple economic scenarios
- Stage 3 loans and advances reduced to £3,078 million (31 December 2020: £3,524 million) and as a proportion of total loans and advances to customers, reduced to 3.6 per cent (31 December 2020: 4.0 per cent). SME flows to Stage 3 remain suppressed and non-SME flows were offset by repayments and write-offs. Stage 3 ECL coverage reduced to 33.7 per cent (31 December 2020: 38.2 per cent) predominantly driven by the release of provisions on a small number of cases in Business Support, including coronavirus impacted restructuring cases

CREDIT RISK PORTFOLIO (continued)

Commercial Banking UK Direct Real Estate

- Commercial Banking UK Direct Real Estate gross lending stood at £12.1 billion at 30 June 2021 (net of exposures subject to protection through Significant Risk Transfer (SRT) securitisations). The Group has a further £0.8 billion of UK Direct Real Estate exposure in Business Banking within the Retail division
- The Group classifies Direct Real Estate as exposure which is directly supported by cash flows from property activities (as opposed to trading activities, such as hotels, care homes and housebuilders). Exposures of £5.7 billion to social housing providers are also excluded
- Recognising this is a cyclical sector, caps are in place to control origination and exposure, including a number of asset type categories. Focus remains on the UK market and business propositions have been written in line with a prudent, through-the-cycle risk appetite with conservative LTVs, strong quality of income and proven management teams
- Overall performance has remained resilient. Watchlist numbers increased through Q1 but have now stabilised. Transfers to BSU have been limited and the BSU CRE portfolio is largely concentrated in the retail/shopping centres sub sector, although this is reducing and remains modest in the context of the overall BSU portfolio. Overall rent collection has been impacted by the coronavirus pandemic, particularly in the retail and leisure space given the impact of lockdowns, though the office sub sector has been resilient. Despite these challenges the portfolio is well positioned and proactively managed with appropriate risk mitigants in place

– Exposures over £1 million continue to be heavily weighted towards investment real estate (c.90 per cent) over development. Of these investment exposures, over 76 per cent have an LTV of less than 60 per cent, with an average LTV of 49 per cent

– c.90 per cent of exposures greater than £5 million have an interest cover ratio of greater than 2.0 times and in SME, LTV at origination has been typically limited to c.55 per cent, given prudent repayment cover criteria (including a notional base rate stress)

– Approximately 60 per cent of exposures over £1 million relate to commercial real estate (with no speculative development lending) with the remainder related to residential real estate. The underlying sub-sector split is diversified with c.13.5 per cent of exposures secured by Retail assets and appetite tightened since 2018

– The Office portfolio is focused on prime locations with strong sponsors and low LTVs, as well as no speculative commercial development. Commercial risk appetite continues to be proactively managed with appropriate risk mitigation tightening seen in the first half of 2021

– Use of SRT securitisations also acts as a risk mitigant in this portfolio, with run off of these carefully managed and tracked

– Both investment and development lending is subject to specific credit risk appetite criteria. Development lending criteria include maximum loan to gross development value and maximum loan to cost, with funding typically only released against completed work, as confirmed by the Group's monitoring quantity surveyor

CREDIT RISK PORTFOLIO (continued)

Commercial Banking lending in key coronavirus-impacted sectors[1]

	At 30 June 2021				At 31 December 2020			
	Drawn	**Undrawn**	**Drawn and undrawn**	**Drawn as a % of loans and advances**	Drawn	Undrawn	Drawn and undrawn	Drawn as a % of loans and advances
	£bn	**£bn**	**£bn**	**%**	£bn	£bn	£bn	%
Retail non-food	**2.1**	**1.4**	**3.5**	**0.4**	2.1	1.7	3.8	0.4
Automotive dealerships[2]	**1.3**	**2.1**	**3.4**	**0.2**	1.8	2.0	3.8	0.4
Construction	**0.8**	**1.5**	**2.3**	**0.2**	0.8	1.7	2.5	0.2
Passenger transport	**1.4**	**0.7**	**2.1**	**0.3**	1.1	1.1	2.2	0.2
Hotels	**1.5**	**0.3**	**1.8**	**0.3**	1.8	0.3	2.1	0.4
Leisure	**0.6**	**0.6**	**1.2**	**0.1**	0.6	0.7	1.3	0.1
Restaurants and bars	**0.5**	**0.4**	**0.9**	**0.1**	0.6	0.5	1.1	0.1
Total	**8.2**	**7.0**	**15.2**	**1.6**	8.8	8.0	16.8	1.7

1 Lending classified using ONS Standard Industrial Classification codes at legal entity level; drawn balances exclude c.£1 billion lending under the Coronavirus Business Interruption Loan Scheme and the Bounce Back Loan Scheme. Oil and Gas has been removed as a key coronavirus-impacted sector.

2 Automotive dealerships includes Black Horse Motor Wholesale lending (within the Retail Division).

FUNDING AND LIQUIDITY MANAGEMENT

The Group has maintained its strong funding and liquidity position with a loan to deposit ratio of 94 per cent as at 30 June 2021 (98 per cent as at 31 December 2020). Customer deposits continued to increase over the period as customer spending remained subdued. This increased the Group's cash reserves held at the Bank of England and allowed the Group to repay £5 billion of the Term Funding Scheme with additional incentives for SMEs (TFSME) taking the total outstanding amount to £8.7 billion as at 30 June 2021.

The Group's liquid assets continue to exceed the regulatory minimum and internal risk appetite, with a liquidity coverage ratio (LCR) of 131 per cent (based on a monthly rolling average over the previous 12 months) as at 30 June 2021 calculated on a Group consolidated basis based on the EU Delegated Act. Following the implementation of structural reform, liquidity risk is managed at a legal entity level with the Group consolidated LCR representing the composite of the Ring-Fenced Bank and Non Ring-Fenced Bank entities.

During the first half of the year, the Group continued to have access to wholesale funding across a range of currencies and markets. Year-to-date term funding issuance volumes total £2.1 billion which remains below the Group’s normal guidance given the availability of customer deposits and TFSME, both of which are more cost effective sources of funding for the Group. The Group continues to expect limited additional term funding needs over the course of the second half of the year. Overall, wholesale funding totalled £103.3 billion as at 30 June 2021.

The Group’s credit ratings continue to reflect the resilience of the Group's business model and the strength of the balance sheet. In May, Fitch downgraded Lloyds Banking Group plc from A+/Negative to A/Negative on a methodological adjustment reflecting the fact that Qualifying Junior Debt ratios will remain below 10 per cent of risk-weighted assets. This action led to a downgrade of the Long Term Issuer Default and Insurer Financial Strength Ratings of Scottish Widows (downgraded by one notch to A and A+ respectively). The ratings of all bank subsidiaries were affirmed. During July, Moody's finalised and updated their ratings methodology and used it to drive a number of ratings changes for UK banks, including the Senior and Subordinated ratings for Lloyds Banking Group and Subordinated ratings for Lloyds Bank, which each saw one notch upgrades. During June and July, all ratings agencies returned the Group’s ratings to Stable to reflect better underlying UK economic expectations and their belief that Lloyds is well positioned to benefit from the macroeconomic recovery underway.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Group funding requirements and sources

	At 30 June 2021 £bn	At 31 Dec 2020 £bn	***Change %***
Group funding position			
Loans and advances to customers[1]	**447.7**	440.2	***2***
Loans and advances to banks[2]	**7.1**	7.8	***(9)***
Debt securities at amortised cost	**5.0**	5.4	***(7)***
Reverse repurchase agreements – non-trading	**56.3**	61.3	***(8)***
Financial assets at fair value through other comprehensive income	**26.2**	27.6	***(5)***
Cash and balances at central banks	**79.0**	73.3	***8***
Other assets[3]	**258.4**	255.7	***1***
Total Group assets	**879.7**	871.3	***1***
Less other liabilities[3]	**(232.1)**	(233.6)	***(1)***
Funding requirements	**647.6**	637.7	***2***
Customer deposits[4]	**474.4**	450.7	***5***
Wholesale funding[5]	**103.3**	109.4	***(6)***
Repurchase agreements – non-trading	**9.3**	14.5	***(36)***
Term funding scheme[6]	**8.7**	13.7	***(36)***
Total equity	**51.9**	49.4	***5***
Funding sources	**647.6**	637.7	***2***

1 Excludes reverse repos of £52.7 billion (31 December 2020: £58.6 billion).

2 Excludes £0.1 billion (31 December 2020: £0.2 billion) of loans and advances to banks within the Insurance business and £3.6 billion (31 December 2020: £2.7 billion) of reverse repurchase agreements.

3 Other assets and other liabilities primarily include balances in the Group’s Insurance business and the fair value of derivative assets and liabilities.

4 Excludes repos of £7.9 billion (31 December 2020: £9.4 billion).

5 The Group’s definition of wholesale funding aligns with that used by other international market participants; including bank deposits, debt securities in issue and subordinated liabilities. Excludes balances relating to margins of £4.0 billion (31 December 2020: £5.3 billion).

6 31 December 2020 balance includes the Bank of England's Term Funding Scheme (TFS). 30 June 2021 and 31 December 2020 include the Term Funding Scheme with additional incentives for SMEs (TFSME).

FUNDING AND LIQUIDITY MANAGEMENT (continued)

At 30 June 2021	Included in funding analysis £bn	Repos and cash collateral received by Insurance £bn	Fair value and other accounting methods £bn	Balance sheet £bn
Deposits from banks	**5.9**	**14.6**	**0.2**	**20.7**
Debt securities in issue	**84.0**	**—**	**(2.7)**	**81.3**
Subordinated liabilities	**13.4**	**—**	**0.1**	**13.5**
Total wholesale funding	**103.3**	**14.6**		
Customer deposits	**474.4**	**7.9**	**—**	**482.3**
Total	**577.7**	**22.5**		
At 31 December 2020				
Deposits from banks	6.1	24.3	1.1	31.5
Debt securities in issue	89.7	—	(2.3)	87.4
Subordinated liabilities	13.6	—	0.7	14.3
Total wholesale funding	109.4	24.3		
Customer deposits	450.7	9.4	—	460.1
Total	560.1	33.7		

Analysis of total wholesale funding by residual maturity

	Less than one month £bn	One to three months £bn	Three to six months £bn	Six to nine months £bn	Nine months to one year £bn	One to two years £bn	Two to five years £bn	More than five years £bn	Total at 30 June 2021 £bn	Total at 31 Dec 2020 £bn
Deposits from banks	**3.3**	**1.4**	**0.6**	**—**	**0.1**	**0.2**	**0.3**	**—**	**5.9**	6.1
Debt securities in issue:										
Certificates of deposit	**0.4**	**0.8**	**1.1**	**1.1**	**0.4**	**0.4**	**—**	**—**	**4.2**	8.0
Commercial paper	**4.2**	**5.8**	**1.8**	**0.5**	**—**	**—**	**—**	**—**	**12.3**	8.1
Medium-term notes	**1.0**	**0.3**	**1.6**	**2.3**	**1.0**	**8.1**	**19.0**	**12.1**	**45.4**	47.5
Covered bonds	**1.3**	**0.7**	**0.4**	**1.0**	**1.1**	**5.5**	**5.7**	**3.9**	**19.6**	23.2
Securitisation	**0.4**	**0.2**	**0.5**	**—**	**0.2**	**1.2**	**—**	**—**	**2.5**	2.9
	7.3	**7.8**	**5.4**	**4.9**	**2.7**	**15.2**	**24.7**	**16.0**	**84.0**	89.7
Subordinated liabilities	**—**	**—**	**—**	**—**	**—**	**1.1**	**6.3**	**6.0**	**13.4**	13.6
Total wholesale funding[1]	**10.6**	**9.2**	**6.0**	**4.9**	**2.8**	**16.5**	**31.3**	**22.0**	**103.3**	109.4

1 Excludes balances relating to margins of £4.0 billion (31 December 2020: £5.3 billion).

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Analysis of 2021 term issuance

	Sterling £bn	US Dollar £bn	Euro £bn	Other currencies £bn	Total £bn
Medium-term notes	—	1.5	—	—	1.5
Covered bonds	—	—	—	—	—
Private placements	0.1	—	—	—	0.1
Subordinated liabilities	0.5	—	—	—	0.5
Total issuance	0.6	1.5	—	—	2.1

Liquidity Portfolio

At 30 June 2021, the banking business had £139.1 billion of highly liquid unencumbered LCR eligible assets, based on a monthly rolling average over the previous 12 months post any liquidity haircuts (31 December 2020: £141.7 billion). These assets are available to meet cash and collateral outflows and regulatory requirements. The Insurance business manages a separate liquidity portfolio to mitigate insurance liquidity risk.

The banking business also has a significant amount of non-LCR eligible liquid assets which are eligible for use in a range of central bank or similar facilities, including the TFSME. Future use of such facilities will be based on prudent liquidity management and economic considerations, having regard for external market conditions.

LCR eligible assets

	Average 2021[1] £bn	Average 2020[2] £bn	*Change* %
Level 1			
Cash and central bank reserves	**71.7**	69.3	*3*
High quality government/MDB/agency bonds[3]	**63.3**	68.1	*(7)*
High quality covered bonds	**2.8**	2.9	*(3)*
Total	**137.8**	140.3	*(2)*
Level 2[4]	**1.3**	1.4	*(7)*
Total LCR eligible assets	**139.1**	141.7	*(2)*

1 Based on 12 months rolling average to 30 June 2021. Eligible assets are calculated as an average of month-end observations over the previous 12 months post any liquidity haircuts.

2 Based on 12 months rolling average to 31 December 2020. Eligible assets are calculated as an average of month-end observations over the previous 12 months post any liquidity haircuts.

3 Designated multilateral development bank (MDB).

4 Includes Level 2A and Level 2B.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Encumbered assets

The Board and the Group Asset and Liability Committee (GALCO) monitor and manage total balance sheet encumbrance using a number of risk appetite metrics. At 30 June 2021, the Group had £38.4 billion (31 December 2020: £46.9 billion) of externally encumbered on-balance sheet assets with counterparties other than central banks. The decrease in encumbered assets was primarily driven by securitisation and covered bond redemptions. The Group also had £737.3 billion (31 December 2020: £707.2 billion) of unencumbered on-balance sheet assets, and £104.0 billion (31 December 2020: £117.2 billion) of pre-positioned and encumbered assets held with central banks, the reduction in the latter was primarily driven by the amortisation of the asset portfolios pledged to access Bank of England funding schemes. Primarily, the Group encumbers mortgages, unsecured lending and credit card receivables through the issuance programmes and tradable securities through securities financing activity. The Group mainly positions mortgage assets at central banks.

CAPITAL MANAGEMENT

Analysis of capital position

The Group's CET1 capital ratio increased from 16.2 per cent at 31 December 2020 to 16.7 per cent (post dividend accrual), with a strong capital build of 93 basis points in the first six months of the year, prior to a reduction in the intangible software assets benefit (6 basis points) and the impact of the foreseeable ordinary dividend accrual (37 basis points). This reflected the following:

- Banking build (pre impairment credit) of 115 basis points, in part offset by 6 basis points for the limited net impact of the impairment credit and partial release of IFRS 9 transitional relief which included 5 basis points relating to the phased reduction of static relief
- A reduction in underlying risk-weighted assets generating an increase of 16 basis points and other movements which netted to 3 basis points
- Offset by pension contributions of 35 basis points, reflecting the full 2021 fixed contributions for the Group's three main defined benefit pension schemes

The accrual for foreseeable ordinary dividends includes the announced interim ordinary dividend of 0.67 pence per share. The Board has confirmed its intention to reintroduce a progressive and sustainable ordinary dividend policy. A final decision on the 2021 full year dividend and the return of any surplus capital through special dividends or share buybacks will be given due consideration by the Board at year end.

The PRA have confirmed their intention to remove the beneficial treatment currently applied to intangible software assets and reinstate the original requirement to deduct these assets in full. This change will be implemented on 1 January 2022 and is expected to reduce the Group's reported CET 1 ratio by c.50bps at that time.

The Group continues to apply the revised IFRS 9 transitional arrangements for capital which provide for temporary capital relief for the increase in accounting impairment provisions following the initial implementation of IFRS 9 ('static' relief) and subsequent relief for any increases in Stage 1 and Stage 2 expected credit losses since 1 January 2020 ('dynamic' relief). The transitional arrangements do not cover Stage 3 expected credit losses. The total relief recognised at 30 June 2021 amounted to 78 basis points.

Excluding the IFRS 9 transitional relief and removing the current beneficial treatment applied to intangible software assets would reduce the Group's CET1 capital ratio from 16.7 per cent to 15.5 per cent, on the basis of the position at 30 June 2021.

The transitional total capital ratio reduced to 23.1 per cent (31 December 2020: 23.3 per cent) largely reflecting the annual reduction in transitional limits applied to legacy tier 1 and tier 2 instruments and the impact of movements in rates, partially offset by the increase in CET 1 capital, the issuance of a new tier 2 capital instrument and the reduction in risk-weighted assets.

The Group's transitional minimum requirement for own funds and eligible liabilities (MREL) ratio reduced to 36.3 per cent (31 December 2020: 36.4 per cent), largely reflecting the reductions in transitional total capital resources and other eligible liabilities, partially offset by the reduction in risk-weighted assets.

The UK leverage ratio remained at 5.8 per cent (31 December 2020: 5.8 per cent) as the reduction in the fully loaded total tier 1 capital position was offset by the reduction in the leverage exposure measure, the latter primarily reflecting movements in securities financing transactions and off-balance sheet items.

Total capital requirement

The Group's total capital requirement (TCR) as at 30 June 2021, being the aggregate of the Group's Pillar 1 and current Pillar 2A capital requirements, was £23,767 million (31 December 2020: £23,918 million).

CAPITAL MANAGEMENT (continued)

Target capital ratio

The Board's view of the ongoing level of CET1 capital required by the Group to grow the business, meet regulatory requirements and cover uncertainties remains at c.12.5 per cent plus a management buffer of c.1 per cent. This takes into account, amongst other things:

- The minimum Pillar 1 CET1 capital requirement of 4.5 per cent of risk-weighted assets
- The Group's Pillar 2A requirement set by the PRA. The current CET1 Pillar 2A requirement is c.2.2 per cent of risk-weighted assets
- The capital conservation buffer (CCB) requirement of 2.5 per cent of risk-weighted assets
- The Group's current countercyclical capital buffer (CCYB) requirement which is around zero per cent of risk-weighted assets, predominantly reflecting the current UK countercyclical capital buffer rate of zero per cent
- The RFB sub-group's other systemically important institution (O-SII) buffer of 2.0 per cent of risk-weighted assets, which equates to 1.7 per cent of risk-weighted assets at Group level
- The Group's PRA Buffer, which the PRA sets after taking account of the results of any PRA stress tests and other information, as well as outputs from the Group's own internal stress tests. The PRA requires this buffer to remain confidential
- The desire to maintain dividends in the context of year to year earnings movements

Capital resources

An analysis of the Group's capital position as at 30 June 2021 is presented in the following section on both a transitional arrangements basis and a fully loaded basis in respect of legacy capital securities subject to current grandfathering provisions. In addition, the Group's capital position under both bases reflects the application of the separate transitional arrangements for IFRS 9.

The following table summarises the consolidated capital position of the Group.

CAPITAL MANAGEMENT (continued)

	Transitional		Fully loaded	
	At 30 June 2021 £m	At 31 Dec 2020 £m	**At 30 June 2021 £m**	At 31 Dec 2020 £m
Common equity tier 1				
Shareholders' equity per balance sheet	**45,761**	43,278	**45,761**	43,278
Adjustment to retained earnings for foreseeable dividends	**(710)**	(404)	**(710)**	(404)
Adjustment to retained earnings for IFRS 9 transitional arrangements	**1,311**	1,958	**1,311**	1,958
Deconsolidation adjustments[1]	**2,583**	2,333	**2,583**	2,333
Cash flow hedging reserve and other adjustments	**(695)**	(1,785)	**(695)**	(1,785)
	48,250	45,380	**48,250**	45,380
less: deductions from common equity tier 1				
Goodwill and other intangible assets	**(3,332)**	(3,120)	**(3,332)**	(3,120)
Prudent valuation adjustment	**(502)**	(445)	**(502)**	(445)
Removal of defined benefit pension surplus	**(2,209)**	(1,322)	**(2,209)**	(1,322)
Significant investments[1]	**(4,073)**	(4,109)	**(4,073)**	(4,109)
Deferred tax assets	**(4,609)**	(3,562)	**(4,609)**	(3,562)
Common equity tier 1 capital[2]	**33,525**	32,822	**33,525**	32,822
Additional tier 1				
Other equity instruments	**5,879**	5,881	**5,879**	5,881
Preference shares and preferred securities[3]	**2,472**	2,705	**—**	—
Transitional limit and other adjustments	**(1,921)**	(1,604)	**—**	—
	6,430	6,982	**5,879**	5,881
less: deductions from tier 1				
Significant investments[1]	**(1,100)**	(1,138)	**(1,100)**	—
Total tier 1 capital[2]	**38,855**	38,666	**38,304**	38,703
Tier 2				
Other subordinated liabilities[3]	**11,055**	11,556	**11,055**	11,556
Deconsolidation of instruments issued by insurance entities[1]	**(1,737)**	(1,892)	**(1,737)**	(1,892)
Adjustments for transitional limit and non-eligible instruments	**914**	1,474	**(1,243)**	(1,346)
Amortisation and other adjustments	**(1,640)**	(1,694)	**(1,640)**	(1,694)
	8,592	9,444	**6,435**	6,624
less: deductions from tier 2				
Significant investments[1]	**(966)**	(942)	**(966)**	(2,080)
Total capital resources[2]	**46,481**	47,168	**43,773**	43,247
Risk-weighted assets (unaudited)	**200,858**	202,747	**200,858**	202,747
Common equity tier 1 capital ratio	**16.7%**	16.2%	**16.7%**	16.2%
Tier 1 capital ratio	**19.3%**	19.1%	**19.1%**	19.1%
Total capital ratio	**23.1%**	23.3%	**21.8%**	21.3%

1 For regulatory capital purposes, the Group's Insurance business is deconsolidated and replaced by the amount of the Group's investment in the business. A part of this amount is deducted from capital (via 'significant investments' in the table above) and the remaining amount is risk-weighted, forming part of threshold risk-weighted assets.

2 Position at 31 December 2020 audited.

3 Preference shares, preferred securities and other subordinated liabilities are reported as subordinated liabilities in the balance sheet.

CAPITAL MANAGEMENT (continued)

Movements in capital resources

The key difference between the transitional capital calculation as at 30 June 2021 and the fully loaded equivalent is primarily related to capital securities that previously qualified as tier 1 or tier 2 capital, but that do not fully qualify under the regulation, which can be included in additional tier 1 (AT1) or tier 2 capital (as applicable) up to specified limits which reduce by 10 per cent per annum until 2022. In addition, following revisions to eligibility criteria for capital instruments under CRR II, certain tier 1 capital instruments of the Group that will transition to tier 2 capital by 2022 will cease to qualify as regulatory capital in June 2025.

Following a debt restructure by the Insurance business during the period, the Group's previous holdings in certain legacy capital instruments issued by Scottish Widows Group Limited have been replaced with new instruments that are fully eligible under Solvency II requirements. These include the issue of Restricted Tier 1 (RT1) and tier 2 capital instruments to the Group which are subsequently deducted from the Group's tier 1 and tier 2 capital positions respectively on both a transitional and fully loaded basis. Remaining legacy instruments held by the Group continue to be deducted from the Group's tier 2 capital position on both a transitional and fully loaded basis.

The key movements on a transitional capital basis are set out in the table below.

	Common equity tier 1 £m	Additional tier 1 £m	Tier 2 £m	Total capital £m
At 31 December 2020	32,822	5,844	8,502	47,168
Banking business profits[1]	**4,025**	**—**	**—**	**4,025**
Foreseeable dividend accrual for the period[2]	**(710)**	**—**	**—**	**(710)**
IFRS 9 transitional adjustment to retained earnings	**(647)**	**—**	**—**	**(647)**
Pension contributions	**(668)**	**—**	**—**	**(668)**
Prudent valuation adjustment	**(57)**	**—**	**—**	**(57)**
Deferred tax asset	**(1,047)**	**—**	**—**	**(1,047)**
Goodwill and other intangible assets	**(212)**	**—**	**—**	**(212)**
Significant investments	**36**	**38**	**(24)**	**50**
Movements in other equity, subordinated liabilities, other tier 2 items and related adjustments	**—**	**(552)**	**(852)**	**(1,404)**
Distributions on other equity instruments	**(213)**	**—**	**—**	**(213)**
Other movements[3]	**196**	**—**	**—**	**196**
At 30 June 2021	**33,525**	**5,330**	**7,626**	**46,481**

1 Under the regulatory framework, profits made by Insurance are removed from CET1 capital. However, when dividends are paid to the Group by Insurance these are recognised through CET1 capital.

2 Reflects the accrual for foreseeable 2021 ordinary dividends. Excludes the reversal of the brought forward accrual for the 2020 full year ordinary dividend which has now been paid out.

3 Includes other pension movements.

CET1 capital resources have increased by £703 million during the period, primarily reflecting:

- underlying banking business profits, with the impairment credit offset by the partial unwind of IFRS 9 transitional relief
- offset in part by pension contributions made during the period, the accrual of the foreseeable ordinary dividend and other items including the increase in deferred tax assets deducted from capital which primarily reflects the remeasurement of deferred tax assets following the announced increase in the UK corporation tax rate from 1 April 2023. The remeasurement has a limited overall capital benefit as the tax credit through banking profits is largely offset by the increase in the deferred tax asset deduction.

AT1 capital resources have reduced by £514 million during the period, primarily reflecting the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments.

CAPITAL MANAGEMENT (continued)

Tier 2 capital resources have reduced by £876 million during the period, largely reflecting the application of the reduced transitional limit applied to grandfathered tier 2 capital instruments, the impact of movements in rates and regulatory amortisation, partially offset by the issuance of a new tier 2 capital instrument.

Minimum requirement for own funds and eligible liabilities (MREL)

The Group is not classified as a global systemically important bank (G-SIB) but is subject to the Bank of England's MREL statement of policy (MREL SoP) and must therefore maintain a minimum level of MREL resources.

Applying the MREL SoP to current minimum capital requirements, the Group's MREL from 1 January 2020, excluding regulatory capital and leverage buffers, is the higher of 2 times Pillar 1 plus Pillar 2A, equivalent to 19.8 per cent of risk-weighted assets, or 6.5 per cent of the UK leverage ratio exposure measure.

From 1 January 2022 the Group's indicative MREL, excluding regulatory capital and leverage buffers, will increase to the higher of 2 times Pillar 1 plus 2 times Pillar 2A, equivalent to 23.7 per cent of risk-weighted assets, or 6.5 per cent of the UK leverage ratio exposure measure.

In addition, CET1 capital cannot be used to meet both MREL and capital or leverage buffers.

The Bank of England is undertaking a review of the current MREL framework and has recently published a consultation paper on proposed changes which it intends to implement by the end of the year. There is no proposed change to the end-state requirements that will apply from 1 January 2022.

An analysis of the Group's current transitional MREL resources is provided in the table below.

	Transitional[1]	
	At 30 June 2021	At 31 Dec 2020
	£m	£m
Total capital resources (transitional basis)	**46,481**	47,168
Ineligible AT1 and tier 2 instruments[2]	**(235)**	(582)
Amortised portion of eligible tier 2 instruments issued by Lloyds Banking Group plc	**420**	194
Other eligible liabilities issued by Lloyds Banking Group plc[3]	**26,180**	26,946
Total MREL resources[1]	**72,846**	73,726
Risk-weighted assets	**200,858**	202,747
MREL ratio	**36.3%**	36.4%
Leverage exposure measure	**658,689**	666,070
MREL leverage ratio	**11.1%**	11.1%

1 Until 2022, externally issued regulatory capital in operating entities can count towards the Group's MREL resources to the extent that such capital would count towards the Group's consolidated capital resources.

2 Instruments with less than or equal to one year to maturity or governed under non-UK law without a contractual bail-in clause.

3 Includes senior unsecured debt.

During the first half of 2021, the Group issued externally £1.4 billion (sterling equivalent at point of issuance) of senior unsecured debt from Lloyds Banking Group plc which, while not included in total capital, is eligible to meet MREL.

Total MREL resources reduced by £880 million during the period, largely as a result of the reduction in total capital resources and a reduction in other eligible liabilities, the latter reflecting the impact of movements in rates and the removal of a senior unsecured debt instrument with less than one year to maturity, partially offset by the issuance of the £1.4 billion of senior unsecured debt.

CAPITAL MANAGEMENT (continued)

Risk-weighted assets

	At 30 June 2021	At 31 Dec 2020
	£m	£m
Foundation Internal Ratings Based (IRB) Approach	**48,137**	50,435
Retail IRB Approach	**66,602**	65,225
Other IRB Approach	**16,986**	17,747
IRB Approach	**131,725**	133,407
Standardised (STA) Approach	**21,787**	23,596
Credit risk	**153,512**	157,003
Counterparty credit risk	**4,999**	5,630
Contributions to the default funds of central counterparties	**423**	436
Credit valuation adjustment risk	**526**	679
Operational risk	**24,573**	24,865
Market risk	**4,516**	2,207
Risk-weighted assets	**188,549**	190,820
Threshold risk-weighted assets[1]	**12,309**	11,927
Total risk-weighted assets	**200,858**	202,747

1 Threshold risk-weighted assets reflect the element of significant investments and deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital. Significant investments primarily arise from investment in the Group's Insurance business.

Risk-weighted asset movements by driver

	Credit risk IRB	**Credit risk STA**	**Credit risk total[1]**	**Counterparty credit risk[2]**	**Market risk**	**Operational risk**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total risk-weighted assets at 31 December 2020							202,747
Less threshold risk-weighted assets[3]							(11,927)
Risk-weighted assets at 31 December 2020	133,407	23,596	157,003	6,745	2,207	24,865	190,820
Asset size	**(3,178)**	**(375)**	**(3,553)**	**(569)**	**—**	**—**	**(4,122)**
Asset quality	**1,816**	**(110)**	**1,706**	**(193)**	**—**	**—**	**1,513**
Model updates	**—**	**—**	**—**	**—**	**533**	**—**	**533**
Methodology and policy	**(42)**	**(1,243)**	**(1,285)**	**—**	**—**	**—**	**(1,285)**
Acquisitions and disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Movements in risk levels (market risk only)	**—**	**—**	**—**	**—**	**51**	**—**	**51**
Foreign exchange movements	**(278)**	**(81)**	**(359)**	**(35)**	**—**	**—**	**(394)**
Other	**—**	**—**	**—**	**—**	**1,725**	**(292)**	**1,433**
Risk-weighted assets at 30 June 2021	**131,725**	**21,787**	**153,512**	**5,948**	**4,516**	**24,573**	**188,549**
Threshold risk-weighted assets[3]							**12,309**
Total risk-weighted assets at 30 June 2021							**200,858**

1 Credit risk includes securitisation risk-weighted assets.

2 Counterparty credit risk includes movements in contributions to the default fund of central counterparties and movements in credit valuation adjustment risk.

3 Threshold risk-weighted assets reflect the element of significant investments and deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital. Significant investments primarily arise from investments in the Group's Insurance business.

CAPITAL MANAGEMENT (continued)

The risk-weighted assets movement table provides analysis of the movement in risk-weighted assets in the period by risk type and an insight into the key drivers of the movements.

Credit risk, risk-weighted assets:

- Asset size reduction of £3.6 billion predominantly reflects continued optimisation in Commercial Banking and lower unsecured balances, partially offset by increased mortgage lending
- Asset quality increase of £1.7 billion reflects the impact of credit migration and retail model calibrations, offset by the benefit of House Price Index increases
- Methodology and policy changes reduced risk-weighted assets by £1.3 billion through securitisation activity and other optimisation activity

Counterparty credit risk, risk-weighted assets: reduced by £0.8 billion predominantly due to movements in market rates during the period

Market risk, risk-weighted assets: the increase of £2.3 billion is largely temporary and due to IBOR cessation activities.

Leverage ratio

The Group is currently subject to the following minimum requirements under the UK Leverage Ratio Framework:

- a minimum leverage ratio requirement of 3.25 per cent of the total leverage exposure measure
- a countercyclical leverage buffer (CCLB) which is currently zero per cent of the total leverage exposure measure, reflecting the current UK countercyclical capital buffer rate of zero per cent
- an additional leverage ratio buffer (ALRB) of 0.7 per cent of the total leverage exposure measure applies to the RFB sub-group, which equates to 0.6 per cent at Group level

At least 75 per cent of the 3.25 per cent minimum leverage ratio requirement as well as 100 per cent of all regulatory leverage buffers must be met with CET1 capital.

Analysis of leverage movements

The Group's fully loaded UK leverage ratio has remained at 5.8 per cent, with the impact of the reduction in the fully loaded total tier 1 capital position offset by the reduction in the exposure measure which reduced by £7.4 billion during the period, largely reflecting movements in securities financing transactions and off-balance sheet items.

Following a direction received from the PRA during 2020 the Group is permitted to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS) from the leverage exposure measure.

The derivatives exposure measure, representing derivative financial instruments per the balance sheet net of deconsolidation and derivatives adjustments, increased by £1.6 billion during the period, largely reflecting market movements and an increase in the regulatory potential future exposure.

The securities financing transactions (SFT) exposure measure, representing SFT assets per the balance sheet net of deconsolidation and other SFT adjustments, reduced by £6.0 billion during the period, largely reflecting a reduction in trades.

Off balance sheet items reduced by £5.3 billion during the period, reflecting reductions in both corporate facilities and residential mortgage offers placed.

The average UK leverage ratio was 5.9 per cent over the second quarter, reducing to 5.8 per cent towards the end of the quarter which largely reflected the reduction in fully loaded total tier 1 capital following the increase in the significant investments deduction from tier 1 capital as a result of the issuance of Solvency II eligible Restricted Tier 1 capital instruments from Insurance to the Group.

CAPITAL MANAGEMENT (continued)

The table below summarises the component parts of the Group's leverage ratio.

	Fully loaded	
	At 30 June 2021 £m	At 31 Dec 2020 £m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	**33,525**	32,822
Additional tier 1 capital	**4,779**	5,881
Total tier 1 capital	**38,304**	38,703
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	**22,193**	29,613
Securities financing transactions	**68,674**	74,322
Loans and advances and other assets	**788,820**	767,334
Total assets	**879,687**	871,269
Qualifying central bank claims	**(73,140)**	(67,093)
Deconsolidation adjustments[1]		
Derivative financial instruments	**(622)**	(1,549)
Securities financing transactions	**—**	—
Loans and advances and other assets	**(180,198)**	(171,183)
Total deconsolidation adjustments	**(180,820)**	(172,732)
Derivatives adjustments		
Adjustments for regulatory netting	**(8,851)**	(12,444)
Adjustments for cash collateral	**(8,694)**	(12,679)
Net written credit protection	**282**	455
Regulatory potential future exposure	**13,216**	12,535
Total derivatives adjustments	**(4,047)**	(12,133)
Securities financing transactions adjustments	**1,319**	1,713
Off-balance sheet items	**55,535**	60,882
Regulatory deductions and other adjustments[2]	**(19,845)**	(15,836)
Total exposure measure	**658,689**	666,070
Average exposure measure[3]	**656,938**	
UK leverage ratio	**5.8%**	5.8%
Average UK leverage ratio[3]	**5.9%**	

1 Deconsolidation adjustments relate to the deconsolidation of certain Group entities that fall outside the scope of the Group's regulatory capital consolidation, primarily the Group's Insurance business.

2 Includes adjustments to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS) and the netting of regular-way purchases and sales awaiting settlement in accordance with CRR Article 500d.

3 The average UK leverage ratio is based on the average of the month end tier 1 capital position and average exposure measure over the quarter (1 April 2021 to 30 June 2021). The average of 5.9 per cent compares to 6.0 per cent at the start and 5.8 per cent at the end of the quarter.

CAPITAL MANAGEMENT (continued)

Application of IFRS 9 on a full impact basis for capital and leverage

	IFRS 9 full impact	
	At 30 June 2021	At 31 Dec 2020
Common equity tier 1 (£m)	**31,855**	30,341
Transitional tier 1 (£m)	**37,185**	36,185
Transitional total capital (£m)	**46,153**	46,052
Total risk-weighted assets (£m)	**200,234**	201,800
Common equity tier 1 ratio (%)	**15.9%**	15.0%
Transitional tier 1 ratio (%)	**18.6%**	17.9%
Transitional total capital ratio (%)	**23.0%**	22.8%
UK leverage ratio exposure measure (£m)	**657,019**	663,590
UK leverage ratio (%)	**5.6%**	5.5%

The Group applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100 per cent risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions.

As at 30 June 2021, static relief under the transitional arrangements amounted to £438 million (31 December 2020: £616 million) and dynamic relief amounted to £1,232 million (31 December 2020: £1,865 million) through CET1 capital.

Stress testing

The Group undertakes a wide-ranging programme of stress testing, providing a comprehensive view of the potential impacts arising from the risks to which the Group and its key legal entities are exposed. One of the most important uses of stress testing is to assess the resilience of the operational and strategic plans of the Group and its legal entities to adverse economic conditions and other key vulnerabilities. As part of this programme, the Group conducts a macroeconomic stress test of the Group four year operating plan in the second half of the year to assess whether the Group's capital position is resilient to a further severe economic shock over and above the stress in the current economic environment.

The Group also participates in stress tests run by the Bank of England. The Bank of England published the industry level results of this year’s stress test in the July 2021 Financial Stability Report, which showed that the industry is resilient to a severe economic shock and validates their analysis conducted during 2020 that banks can lend to households and businesses, even in very challenging scenarios. This aligns to the Group’s view of its strength and resilience as it continues with its commitment to meet the needs of customers.

The Climate Biennial Exploratory Scenario (CBES) launched in June 2021 and activity is underway. The Group is investing significant resource in preparation and execution, in particular in acquiring climate related data and will leverage the experience gained through that exercise to further embed climate risk into risk management and stress testing activities.

CAPITAL MANAGEMENT (continued)

Regulatory capital developments

A number of significant regulatory capital changes will implement on 1 January 2022, including the remaining UK implementation of CRR 2 (which includes the revised standardised measure of counterparty credit risk - SA-CCR) and required changes to the Group's IRB models which will predominantly impact the mortgage models as a result of changes to the definition of default, revised loss given default (LGD) parameters and a new 'hybrid' probability of default (PD) approach. In addition UK regulators are currently consulting on revisions to the UK leverage ratio framework which are also expected to apply from 1 January 2022.

A consultation on the UK implementation of the remaining final Basel III reforms (also referred to as Basel 3.1), which include significant revisions to the credit risk, CVA and operational risk frameworks and will lead to the phased introduction of a risk-weighted assets output floor, is expected to be published by UK regulators in Q4 2021. The final rules are currently expected to apply from 1 January 2023, with the output floor expected to be phased in over several years.

Half-year Pillar 3 disclosures

The Group will publish a condensed set of half-year Pillar 3 disclosures in mid-August. A copy of the disclosures will be available to view at: https://www.lloydsbankinggroup.com/investors/financial-downloads.html

STATUTORY INFORMATION

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	**Half-year to 30 June 2021 £m**	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Interest income		**6,544**	7,574	6,732
Interest expense		**(2,171)**	(1,018)	(2,539)
Net interest income		**4,373**	6,556	4,193
Fee and commission income		**1,294**	1,121	1,187
Fee and commission expense		**(601)**	(558)	(590)
Net fee and commission income	4	**693**	563	597
Net trading income		**9,515**	(5,211)	12,431
Insurance premium income		**4,249**	4,244	4,371
Other operating income		**738**	720	703
Other income		**15,195**	316	18,102
Total income		**19,568**	6,872	22,295
Insurance claims	5	**(11,489)**	1,023	(15,064)
Total income, net of insurance claims		**8,079**	7,895	7,231
Operating expenses	6	**(4,897)**	(4,668)	(5,077)
Impairment	7	**723**	(3,829)	(326)
Profit (loss) before tax		**3,905**	(602)	1,828
Tax (expense) credit	8	**(40)**	621	(460)
Profit for the period		**3,865**	19	1,368
Profit (loss) attributable to ordinary shareholders		**3,611**	(234)	1,099
Profit attributable to other equity holders		**213**	234	219
Profit attributable to equity holders		**3,824**	—	1,318
Profit attributable to non-controlling interests		**41**	19	50
Profit for the period		**3,865**	19	1,368
Basic earnings (loss) per share	9	**5.1p**	(0.3p)	1.5p
Diluted earnings (loss) per share	9	**5.0p**	(0.3p)	1.5p

The accompanying notes are an integral part of the condensed consolidated half-year financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Profit for the period	**3,865**	19	1,368
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements:			
Remeasurements before tax	**604**	668	(530)
Tax	**(323)**	(154)	129
	281	514	(401)
Movements in revaluation reserve in respect of equity shares held at fair value through other comprehensive income:			
Change in fair value	**40**	(62)	12
Tax	**1**	—	(16)
	41	(62)	(4)
Gains and losses attributable to own credit risk:			
Losses before tax	**(48)**	(3)	(72)
Tax	**22**	1	19
	(26)	(2)	(53)
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:			
Change in fair value	**36**	(21)	67
Income statement transfers in respect of disposals	**(15)**	(137)	(12)
Income statement transfers in respect of impairment	**(2)**	6	(1)
Tax	**7**	43	31
	26	(109)	85
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value taken to other comprehensive income	**(1,153)**	890	(160)
Net income statement transfers	**(296)**	(223)	(273)
Tax	**372**	(209)	100
	(1,077)	458	(333)
Movements in foreign currency translation reserve:			
Currency translation differences (tax: £nil)	**(23)**	28	(24)
Transfers to income statement (tax: £nil)	**—**	—	13
	(23)	28	(11)
Other comprehensive income for the period, net of tax	**(778)**	827	(717)
Total comprehensive income for the period	**3,087**	846	651
Total comprehensive income attributable to ordinary shareholders	**2,833**	593	382
Total comprehensive income attributable to other equity holders	**213**	234	219
Total comprehensive income attributable to equity holders	**3,046**	827	601
Total comprehensive income attributable to non-controlling interests	**41**	19	50
Total comprehensive income for the period	**3,087**	846	651

CONSOLIDATED BALANCE SHEET

	Note	**At 30 June 2021 (unaudited) £m**	At 31 Dec 2020 (audited) £m
Assets			
Cash and balances at central banks		**78,966**	73,257
Items in the course of collection from banks		**163**	299
Financial assets at fair value through profit or loss	10	**177,589**	171,626
Derivative financial instruments	11	**22,193**	29,613
Loans and advances to banks		**10,811**	10,746
Loans and advances to customers		**500,356**	498,843
Debt securities		**5,008**	5,405
Financial assets at amortised cost	12	**516,175**	514,994
Financial assets at fair value through other comprehensive income		**26,213**	27,603
Investments in joint ventures and associates		**313**	296
Goodwill		**2,320**	2,320
Value of in-force business		**5,727**	5,617
Other intangible assets		**4,299**	4,140
Property, plant and equipment		**11,518**	11,754
Current tax recoverable		**792**	660
Deferred tax assets		**3,346**	2,741
Retirement benefit assets	14	**3,134**	1,714
Assets arising from contracts held with reinsurers		**19,922**	20,385
Other assets		**7,017**	4,250
Total assets		**879,687**	871,269

CONSOLIDATED BALANCE SHEET (continued)

Equity and liabilities	Note	At 30 June 2021 (unaudited) £m	At 31 Dec 2020 (audited) £m
Liabilities			
Deposits from banks		**20,655**	31,465
Customer deposits		**482,349**	460,068
Items in course of transmission to banks		**325**	306
Financial liabilities at fair value through profit or loss		**21,054**	22,646
Derivative financial instruments	11	**17,951**	27,313
Notes in circulation		**1,368**	1,305
Debt securities in issue	13	**81,268**	87,397
Liabilities arising from insurance contracts and participating investment contracts		**120,368**	116,060
Liabilities arising from non-participating investment contracts		**42,031**	38,452
Other liabilities		**24,871**	20,347
Retirement benefit obligations	14	**234**	245
Current tax liabilities		**—**	31
Deferred tax liabilities		**42**	45
Other provisions	15	**1,758**	1,915
Subordinated liabilities		**13,527**	14,261
Total liabilities		**827,801**	821,856
Equity			
Share capital		**7,097**	7,084
Share premium account		**17,872**	17,863
Other reserves		**12,713**	13,747
Retained profits		**8,079**	4,584
Ordinary shareholders' equity		**45,761**	43,278
Other equity instruments		**5,906**	5,906
Total equity excluding non-controlling interests		**51,667**	49,184
Non-controlling interests		**219**	229
Total equity		**51,886**	49,413
Total equity and liabilities		**879,687**	871,269

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
At 1 January 2021	24,947	13,747	4,584	43,278	5,906	229	49,413
Comprehensive income							
Profit for the period	—	—	3,611	3,611	213	41	3,865
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	—	—	281	281	—	—	281
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	—	26	—	26	—	—	26
Equity shares	—	41	—	41	—	—	41
Gains and losses attributable to own credit risk, net of tax	—	—	(26)	(26)	—	—	(26)
Movements in cash flow hedging reserve, net of tax	—	(1,077)	—	(1,077)	—	—	(1,077)
Movements in foreign currency translation reserve, net of tax	—	(23)	—	(23)	—	—	(23)
Total other comprehensive income	—	(1,033)	255	(778)	—	—	(778)
Total comprehensive income[1]	—	(1,033)	3,866	2,833	213	41	3,087
Transactions with owners							
Dividends	—	—	(404)	(404)	—	(51)	(455)
Distributions on other equity instruments	—	—	—	—	(213)	—	(213)
Issue of ordinary shares	22	—	—	22	—	—	22
Movement in treasury shares	—	—	(54)	(54)	—	—	(54)
Value of employee services:							
Share option schemes	—	—	27	27	—	—	27
Other employee award schemes	—	—	59	59	—	—	59
Changes in non-controlling interests	—	—	—	—	—	—	—
Total transactions with owners	22	—	(372)	(350)	(213)	(51)	(614)
Realised gains and losses on equity shares held at fair value through other comprehensive income	—	(1)	1	—	—	—	—
At 30 June 2021[2]	24,969	12,713	8,079	45,761	5,906	219	51,886

1 Total comprehensive income attributable to owners of the parent was £3,046 million.

2 Total equity attributable to owners of the parent was £51,667 million.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

	Attributable to ordinary shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
At 1 January 2020	24,756	13,695	3,246	41,697	5,906	203	47,806
Comprehensive income							
(Loss) profit for the period	—	—	(234)	(234)	234	19	19
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	—	—	514	514	—	—	514
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	—	(109)	—	(109)	—	—	(109)
Equity shares	—	(62)	—	(62)	—	—	(62)
Gains and losses attributable to own credit risk, net of tax	—	—	(2)	(2)	—	—	(2)
Movements in cash flow hedging reserve, net of tax	—	458	—	458	—	—	458
Movements in foreign currency translation reserve, net of tax	—	28	—	28	—	—	28
Total other comprehensive income	—	315	512	827	—	—	827
Total comprehensive income[1]	—	315	278	593	234	19	846
Transactions with owners							
Dividends	—	—	—	—	—	—	—
Distributions on other equity instruments	—	—	—	—	(234)	—	(234)
Issue of ordinary shares	176	—	—	176	—	—	176
Movement in treasury shares	—	—	221	221	—	—	221
Value of employee services:							
Share option schemes	—	—	12	12	—	—	12
Other employee award schemes	—	—	35	35	—	—	35
Changes in non-controlling interests	—	—	—	—	—	—	—
Total transactions with owners	176	—	268	444	(234)	—	210
Realised gains and losses on equity shares held at fair value through other comprehensive income	—	—	—	—	—	—	—
At 30 June 2020[2]	24,932	14,010	3,792	42,734	5,906	222	48,862

1 Total comprehensive income attributable to owners of the parent was £827 million.

2 Total equity attributable to owners of the parent was £48,640 million.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

	Attributable to ordinary shareholders						
	Share capital and premium	Other reserves	Retained profits	Total	Other equity instruments	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 July 2020	24,932	14,010	3,792	42,734	5,906	222	48,862
Comprehensive income							
Profit for the period	—	—	1,099	1,099	219	50	1,368
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	—	—	(401)	(401)	—	—	(401)
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	—	85	—	85	—	—	85
Equity shares	—	(4)	—	(4)	—	—	(4)
Gains and losses attributable to own credit risk, net of tax	—	—	(53)	(53)	—	—	(53)
Movements in cash flow hedging reserve, net of tax	—	(333)	—	(333)	—	—	(333)
Movements in foreign currency translation reserve, net of tax	—	(11)	—	(11)	—	—	(11)
Total other comprehensive income	—	(263)	(454)	(717)	—	—	(717)
Total comprehensive income[1]	—	(263)	645	382	219	50	651
Transactions with owners							
Dividends	—	—	—	—	—	(41)	(41)
Distributions on other equity instruments	—	—	—	—	(219)	—	(219)
Issue of ordinary shares	15	—	—	15	—	—	15
Movement in treasury shares	—	—	72	72	—	—	72
Value of employee services:							
Share option schemes	—	—	36	36	—	—	36
Other employee award schemes	—	—	39	39	—	—	39
Changes in non-controlling interests	—	—	—	—	—	(2)	(2)
Total transactions with owners	15	—	147	162	(219)	(43)	(100)
Realised gains and losses on equity shares held at fair value through other comprehensive income	—	—	—	—	—	—	—
At 31 December 2020[2]	24,947	13,747	4,584	43,278	5,906	229	49,413

1 Total comprehensive income attributable to owners of the parent was £601 million.

2 Total equity attributable to owners of the parent was £49,184 million.

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Profit (loss) before tax	**3,905**	(602)	1,828
Adjustments for:			
Change in operating assets	**(2,013)**	(14,313)	(4,337)
Change in operating liabilities	**2,509**	41,412	(5,675)
Non-cash and other items	**2,620**	2,405	7,189
Tax paid	**(602)**	(726)	(10)
Net cash provided by (used in) operating activities	**6,419**	28,176	(1,005)
Cash flows from investing activities			
Purchase of financial assets	**(5,442)**	(7,115)	(1,474)
Proceeds from sale and maturity of financial assets	**6,378**	5,239	1,108
Purchase of fixed assets	**(1,553)**	(1,314)	(1,587)
Proceeds from sale of fixed assets	**710**	440	706
Acquisition of businesses, net of cash acquired	**(7)**	(3)	—
Net cash provided by (used in) investing activities	**86**	(2,753)	(1,247)
Cash flows from financing activities			
Dividends paid to ordinary shareholders	**(404)**	—	—
Distributions on other equity instruments	**(213)**	(234)	(219)
Dividends paid to non-controlling interests	**(51)**	—	(41)
Interest paid on subordinated liabilities	**(456)**	(682)	(413)
Proceeds from issue of subordinated liabilities	**500**	—	—
Proceeds from issue of ordinary shares	**12**	133	11
Repayment of subordinated liabilities	**(471)**	(1,769)	(2,105)
Net cash used in financing activities	**(1,083)**	(2,552)	(2,767)
Effects of exchange rate changes on cash and cash equivalents	**(66)**	4	(200)
Change in cash and cash equivalents	**5,356**	22,875	(5,219)
Cash and cash equivalents at beginning of period	**75,467**	57,811	80,686
Cash and cash equivalents at end of period	**80,823**	80,686	75,467

Cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with a maturity of less than three months. Included within cash and cash equivalents at 30 June 2021 is £76 million (30 June 2020: £55 million; 31 December 2020: £84 million) held within the Group's long-term insurance and investments operations, which is not immediately available for use in the business.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

Note 1: Accounting policies

These condensed consolidated half-year financial statements as at and for the period to 30 June 2021 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), *Interim Financial Reporting* as adopted by the United Kingdom and comprise the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2020 which complied with international accounting standards in conformity with the requirements of the Companies Act 2006, were prepared in accordance with International Financial Reporting Standards (IFRS) and were compliant with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Copies of the 2020 Annual Report and Accounts are available on the Group's website and are available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The UK Finance Code for Financial Reporting Disclosure (the Disclosure Code) sets out disclosure principles together with supporting guidance in respect of the financial statements of UK banks. The Group has adopted the Disclosure Code and these condensed consolidated half-year financial statements have been prepared in compliance with the Disclosure Code's principles. Terminology used in these condensed consolidated half-year financial statements is consistent with that used in the Group's 2020 Annual Report and Accounts.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the directors have taken into account the continuing uncertainties affecting the UK economy post-pandemic and their potential effects upon the Group's performance and projected funding and capital position; the impact of further stress scenarios has also been considered. On this basis, the directors are satisfied that the Group will maintain adequate levels of funding and capital for the foreseeable future.

Changes in accounting policy

The Group adopted the Interest Rate Benchmark Reform Phase 2 amendments from 1 January 2021. These amendments require that changes to expected future cash flows that both arise as a direct result of IBOR Reform and are economically equivalent to the previous cash flows are accounted for as a change to the effective interest rate with no adjustment to the asset or liability's carrying amount; no immediate gain or loss is recognised. The new requirements also provide relief from the requirement to discontinue hedge accounting as a result of amending hedge documentation if the changes are required solely as a result of the IBOR Reform. The amendments do not have a material impact on the Group's comparatives, which have not been restated.

Except for the change above, the Group's accounting policies are consistent with those applied by the Group in its 2020 Annual Report and Accounts and there have been no changes in the Group's methods of computation.

Future accounting developments

Details of those IFRS pronouncements which will be relevant to the Group but which will not be effective at 31 December 2021 and which have not been applied in preparing these condensed consolidated half-year financial statements are set out in note 20.

Related party transactions

The Group has had no significant related party transactions during the half-year to 30 June 2021. Related party transactions for the half-year to 30 June 2021 are similar in nature to those for the year ended 31 December 2020. Full details of the Group's related party transactions for the year ended 31 December 2020 can be found in the Group's 2020 Annual Report and Accounts.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group's significant judgements, estimates and assumptions are unchanged compared to those applied at 31 December 2020, except as detailed below.

Allowance for expected credit losses

The Group recognises an allowance for expected credit losses (ECLs) for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income and certain loan commitment and financial guarantee contracts. At 30 June 2021 the Group's expected credit loss allowance was £5,058 million (31 December 2020: £6,247 million), of which £4,699 million (31 December 2020: £5,788 million) was in respect of drawn balances.

The calculation of the Group's expected credit loss allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. These are set out in detail in the Group's 2020 Annual Report and Accounts. The principal changes made in the period ended 30 June 2021 are as follows:

Base Case and Economic Assumptions

The Group's base case economic scenario has been revised in light of the continuing impact of the coronavirus pandemic in the UK and globally. The scenario reflects judgements of the net effect of government-mandated restrictions on economic activity, large-scale government interventions and behavioural changes by households and businesses that may persist beyond the rollout of coronavirus vaccination programmes.

As large-scale vaccination efforts compete with the emergence of new viral strains in the UK and globally, there remains considerable uncertainty about the pace and eventual extent of the post-pandemic recovery. The Group's updated base case scenario builds in three key conditioning assumptions. First, that rising infections in the UK's third COVID-19 wave do not lead to a re-imposition of restrictions. Second, that the rollout of vaccination programmes among the UK's trading partners will reinforce an improving global backdrop. Third, that domestic policy measures remain accommodative, with monetary policy looking through a transient rise in inflation.

Conditioned on these assumptions and taking note of improvements in economic indicators in the second quarter, the Group's base case outlook continues to assume a rise in the unemployment rate as furlough support ends alongside a deceleration in residential and commercial property price growth. Risks around this base case economic view lie in both directions and are partly captured by the alternative economic scenarios generated. But uncertainties relating to the key conditioning assumptions, including epidemiological developments, the efficacy of vaccine rollouts against emergent strains and the response of the economy in those circumstances are not specifically captured by these scenarios. These specific risks have been recognised outside the modelled scenarios with a central adjustment.

The Group has incorporated the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the second quarter of 2021, for which actuals may have since emerged prior to publication.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates (continued)

Base case scenario by quarter[1]

At 30 June 2021	First quarter 2021 %	Second quarter 2021 %	Third quarter 2021 %	Fourth quarter 2021 %	First quarter 2022 %	Second quarter 2022 %	Third quarter 2022 %	Fourth quarter 2022 %
Gross domestic product	**(1.5)**	**4.3**	**(0.3)**	**3.2**	**1.5**	**0.5**	**0.4**	**0.4**
UK Bank Rate	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**
Unemployment rate	**4.8**	**5.0**	**5.4**	**6.6**	**6.4**	**6.2**	**6.1**	**5.9**
House price growth	**6.5**	**10.5**	**6.8**	**5.6**	**5.0**	**1.7**	**0.3**	**0.1**
Commercial real estate price growth	**(2.9)**	**1.3**	**1.5**	**0.4**	**(0.3)**	**(0.5)**	**0.4**	**1.0**

At 31 December 2020	First quarter 2020 %	Second quarter 2020 %	Third quarter 2020 %	Fourth quarter 2020 %	First quarter 2021 %	Second quarter 2021 %	Third quarter 2021 %	Fourth quarter 2021 %
Gross domestic product	(3.0)	(18.8)	16.0	(1.9)	(3.8)	5.6	3.6	1.5
UK Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Unemployment rate	4.0	4.1	4.8	5.0	5.2	6.5	8.0	7.5
House price growth	2.8	2.6	7.2	5.9	5.5	4.7	(1.6)	(3.8)
Commercial real estate price growth	(5.0)	(7.8)	(7.8)	(7.0)	(6.1)	(2.9)	(2.2)	(1.7)

1 Gross domestic product presented quarter on quarter, house price growth and commercial real estate growth presented year on year - i.e. from the equivalent quarter the previous year. UK Bank Rate is presented end quarter.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates (continued)

Scenarios by year

Key annual assumptions made by the Group are shown below. Gross domestic product is presented as an annual change, house price growth and commercial real estate price growth are presented as the growth in the respective indices within the period. UK Bank Rate and unemployment rate are averages for the period. The upside, base case and downside scenarios are weighted at 30 per cent each, with the severe downside scenario weighted at 10 per cent.

At 30 June 2021	2021 %	2022 %	2023 %	2024 %	2025 %	2021–2025 average %
Upside						
Gross domestic product	**6.1**	**5.5**	**1.4**	**1.4**	**1.2**	**3.1**
UK Bank Rate	**0.52**	**1.27**	**1.09**	**1.32**	**1.58**	**1.16**
Unemployment rate	**4.7**	**4.9**	**4.4**	**4.2**	**4.1**	**4.5**
House price growth	**6.8**	**3.4**	**4.6**	**3.9**	**3.4**	**4.4**
Commercial real estate price growth	**9.2**	**5.7**	**2.4**	**0.3**	**(0.3)**	**3.4**
Base case						
Gross domestic product	**5.5**	**5.5**	**1.6**	**1.4**	**1.2**	**3.0**
UK Bank Rate	**0.10**	**0.10**	**0.25**	**0.50**	**0.75**	**0.34**
Unemployment rate	**5.4**	**6.1**	**5.4**	**5.0**	**4.8**	**5.4**
House price growth	**5.6**	**0.1**	**0.1**	**0.6**	**1.1**	**1.5**
Commercial real estate price growth	**0.4**	**1.0**	**0.6**	**0.3**	**0.5**	**0.6**
Downside						
Gross domestic product	**4.8**	**4.2**	**1.3**	**1.4**	**1.4**	**2.6**
UK Bank Rate	**0.09**	**0.05**	**0.06**	**0.11**	**0.20**	**0.10**
Unemployment rate	**6.0**	**7.8**	**7.1**	**6.5**	**6.0**	**6.7**
House price growth	**3.5**	**(6.2)**	**(7.5)**	**(4.9)**	**(1.8)**	**(3.5)**
Commercial real estate price growth	**(5.3)**	**(5.3)**	**(2.8)**	**(1.5)**	**0.2**	**(3.0)**
Severe downside						
Gross domestic product	**4.1**	**3.5**	**1.1**	**1.4**	**1.4**	**2.3**
UK Bank Rate	**0.06**	**0.00**	**0.01**	**0.02**	**0.03**	**0.02**
Unemployment rate	**7.0**	**9.9**	**9.1**	**8.3**	**7.6**	**8.4**
House price growth	**2.4**	**(11.0)**	**(13.2)**	**(9.6)**	**(5.1)**	**(7.5)**
Commercial real estate price growth	**(13.5)**	**(13.5)**	**(6.9)**	**(2.3)**	**0.5**	**(7.3)**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates (continued)

At 31 December 2020	2020 %	2021 %	2022 %	2023 %	2024 %	2020–2024 average %
Upside						
Gross domestic product	(10.5)	3.7	5.7	1.7	1.5	0.3
UK Bank Rate	0.10	1.14	1.27	1.20	1.21	0.98
Unemployment rate	4.3	5.4	5.4	5.0	4.5	5.0
House price growth	6.3	(1.4)	5.2	6.0	5.0	4.2
Commercial real estate price growth	(4.6)	9.3	3.9	2.1	0.3	2.1
Base case						
Gross domestic product	(10.5)	3.0	6.0	1.7	1.4	0.1
UK Bank Rate	0.10	0.10	0.10	0.21	0.25	0.15
Unemployment rate	4.5	6.8	6.8	6.1	5.5	5.9
House price growth	5.9	(3.8)	0.5	1.5	1.5	1.1
Commercial real estate price growth	(7.0)	(1.7)	1.6	1.1	0.6	(1.1)
Downside						
Gross domestic product	(10.6)	1.7	5.1	1.4	1.4	(0.4)
UK Bank Rate	0.10	0.06	0.02	0.02	0.03	0.05
Unemployment rate	4.6	7.9	8.4	7.8	7.0	7.1
House price growth	5.6	(8.4)	(6.5)	(4.7)	(3.0)	(3.5)
Commercial real estate price growth	(8.7)	(10.6)	(3.2)	(0.8)	(0.8)	(4.9)
Severe downside						
Gross domestic product	(10.8)	0.3	4.8	1.3	1.2	(0.8)
UK Bank Rate	0.10	0.00	0.00	0.01	0.01	0.02
Unemployment rate	4.8	9.9	10.7	9.8	8.7	8.8
House price growth	5.3	(11.1)	(12.5)	(10.7)	(7.6)	(7.5)
Commercial real estate price growth	(11.0)	(21.4)	(9.8)	(3.9)	(0.8)	(9.7)

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates (continued)

The table below shows the Group's ECL for the upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted PD and, hence, the Stage 2 allocation is constant across all the scenarios. ECL applied through individual assessments and post-model adjustments is reported flat against each economic scenario, reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario sensitivities. It therefore shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios from the probability-weighted view relative to the base case. The uplift being £388 million compared to £506 million at 31 December 2020.

At 30 June 2021	**Probability-weighted £m**	**Upside £m**	**Base case £m**	**Downside £m**	**Severe downside £m**
UK Mortgages	**905**	**544**	**684**	**1,100**	**2,064**
Other Retail	**2,053**	**1,896**	**2,009**	**2,152**	**2,355**
Commercial Banking	**1,650**	**1,395**	**1,527**	**1,799**	**2,340**
Other	**450**	**448**	**450**	**450**	**454**
ECL allowance	**5,058**	**4,283**	**4,670**	**5,501**	**7,213**

At 31 December 2020	Probability-weighted £m	Upside £m	Base case £m	Downside £m	Severe downside £m
UK Mortgages	1,027	614	804	1,237	2,306
Other Retail	2,368	2,181	2,310	2,487	2,745
Commercial Banking	2,402	1,910	2,177	2,681	3,718
Other	450	448	450	450	456
ECL allowance	6,247	5,153	5,741	6,855	9,225

The impact of changes in the UK unemployment rate and House Price Index (HPI) have also been assessed. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Group's ECL to gradual changes in these two critical economic factors. The assessment has been made against the base case with the reported staging unchanged.

The table below shows the impact on the Group's ECL in respect of UK Mortgages resulting from a decrease/increase in loss given default for a 10 percentage point (pp) increase or decrease in the UK House Price Index (HPI). The increase/decrease is presented based on the adjustment phased evenly over the first ten quarters of the base case scenario.

	At 30 June 2021		At 31 December 2020	
	10pp increase in HPI	**10pp decrease in HPI**	10pp increase in HPI	10pp decrease in HPI
ECL impact, £m	**(175)**	**254**	(206)	284

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates (continued)

The table below shows the impact on the Group's ECL resulting from a 1 percentage point (pp) increase or decrease in the UK unemployment rate. The increase or decrease is presented based on the adjustment phased evenly over the first ten quarters of the base case scenario. An immediate increase or decrease would drive a more material ECL impact as it would be fully reflected in both 12 month and lifetime PDs.

	At 30 June 2021		At 31 December 2020	
	1pp increase in unemployment	**1pp decrease in unemployment**	1pp increase in unemployment	1pp decrease in unemployment
	£m	**£m**	£m	£m
UK Mortgages	**33**	**(28)**	25	(23)
Other Retail	**45**	**(45)**	54	(54)
Commercial Banking	**87**	**(74)**	125	(112)
Other	**1**	**(1)**	1	(1)
ECL impact	**166**	**(148)**	205	(190)

Application of judgement in adjustments to modelled ECL

Impairment models fall within the Group's Model Risk framework with model monitoring, periodic validation and back testing performed on model components (i.e. probability of default, exposure at default and loss given default). Limitations in the Group's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Group's allowance for impairment losses to ensure that the overall provision adequately reflects all material risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays.

Judgements are not typically assessed under each distinct economic scenario used to generate ECL, but instead are applied on the basis of final modelled ECL which reflects the probability-weighted view of all scenarios. All adjustments are reviewed quarterly and are subject to internal review and challenge, including by the Audit Committee, to ensure that amounts are appropriately calculated and that there are specific release criteria within a reasonable timeframe.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates (continued)

At 30 June 2021 the coronavirus pandemic and the various support measures that have been put in place have resulted in an economic environment which differs significantly from the historical economic conditions upon which the impairment models have been built. As a result there is a greater need for management judgements to be applied, as seen in the elevated levels present since year end. At 30 June 2021 management judgement resulted in additional ECL allowances totalling £1,682 million (31 December 2020: £1,383 million). This comprises judgements added due to COVID-19 and other judgements not directly linked to COVID-19 but which have increased in size under the current outlook. The table below analyses total ECL allowance at 30 June 2021 by portfolio, separately identifying the amounts that have been modelled, those that have been individually assessed and those arising through the application of management judgement.

	Modelled ECL £m	Individually assessed £m	Judgements due to COVID-19[1] £m	Other judgements £m	Total ECL £m
At 30 June 2021					
UK Mortgages	**345**	**—**	**73**	**487**	**905**
Other Retail	**1,610**	**—**	**405**	**38**	**2,053**
Commercial Banking	**418**	**953**	**280**	**(1)**	**1,650**
Other	**50**	**—**	**400**	**—**	**450**
Total	**2,423**	**953**	**1,158**	**524**	**5,058**
At 31 December 2020					
UK Mortgages	481	—	36	510	1,027
Other Retail	2,060	—	321	(13)	2,368
Commercial Banking	1,051	1,222	131	(2)	2,402
Other	50	—	400	—	450
Total	3,642	1,222	888	495	6,247

1 Judgements due to the impact that COVID-19 and resulting interventions have had on the Group's economic outlook and observed loss experience, which have required additional model limitations to be addressed.

Central overlay in respect of economic uncertainty

Central overlay in respect of economic uncertainty: £400 million (31 December 2020: £400 million)

The Group's £400 million central overlay was added at year end in recognition of the risks to the conditioning assumptions around the base case scenario being markedly to the downside given the potential for a material delay in the vaccination programme or reduction in its effectiveness from further virus mutation and the corresponding delayed withdrawal of restrictions on social interaction or introduction of further lockdowns.

Although the outlook has improved in the first half, the Group still considers that the conditioning assumptions within the base case and associated scenarios do not necessarily capture the unprecedented risks that remain. The vaccine roll out has progressed well and has supported the planned easing of restrictions to date, however the increasing infection rate and hospitalisations from the Delta variant highlight the potential risk from further virus mutation and the resulting response which could be needed, potentially impacting on social and economic activity. The scale of the uncertainty is expected to diminish once the UK is fully vaccinated and infection levels have been sustained at low levels, with restrictions reduced and associated Government support wound down.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates (continued)

Except as noted below, the nature of the judgements are consistent with those applied by the Group in its 2020 Annual Report and Accounts. The 30 June 2021 allowance has been re-assessed based on latest economic outlook, data points and modelled result.

Judgements due to COVID-19

	At 30 June 2021 £m	At 31 Dec 2020 £m
UK Mortgages	**73**	36
Other Retail		
Recognition of impact of support measures	**318**	218
Incorporation of forward-looking LGDs	**80**	86
Other	**7**	17
	405	321
Commercial Banking		
Adjustment to economic variables used as inputs to models	**171**	93
Key coronavirus-impacted sectors	**100**	—
Other	**9**	38
	280	131
Other	**400**	400
Total	**1,158**	888

Notable movements from 31 December 2020 include:

UK Mortgages: £73 million (31 December 2020: £36 million)

Judgement has increased in the period due to an extension of the temporary suspension of the repossession of properties to support customers during the pandemic. The amount at 30 June 2021 also incorporates an adjustment to ensure ECL is at calibrated levels when applied to the latest balance sheet date.

Other Retail

Recognition of impact of support measures: £318 million (31 December 2020: £218 million)

Government support and subdued levels of consumer spending are judged to have temporarily reduced the flow of accounts into arrears and default and to have improved average credit scores across portfolios. The adjustment made at year end to reverse these impacts has continued to grow through 2021 with the passage of time and as average credit scores improved further.

Commercial Banking

Adjustment to economic variables used as inputs to models: £171 million (31 December 2020: £93 million)

Further observed reductions in the rate of corporate insolvencies, used as an input to Commercial default models, continue to be substituted with an increase proportionate to that seen in unemployment to generate a level of predicted defaults. The increase in the adjustment reflects the larger release which would therefore result should the metric, still believed unrepresentative of underlying conditions, be used within the model.

Key coronavirus-impacted sectors: £100 million (31 December 2020: £nil)

At year end the modelled ECL incorporated an economic outlook containing a material reduction in corporate profits. This is no longer assumed, which generates a reduction in modelled ECL and therefore leaves potential risk on specific underperforming sectors. Judgement has therefore been raised in place of this to ensure a more targeted stress on likelihood and severity of loss in these sectors.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 2: Critical accounting judgements and estimates (continued)

Other judgements

	At 30 June 2021 £m	At 31 Dec 2020 £m
UK Mortgages		
Adjustment to modelled forecast parameters	**140**	193
End-of-term interest only	**168**	179
Long-term defaults	**74**	87
Other	**105**	51
	487	510
Other Retail		
Lifetime extension on revolving products	**71**	81
Unsecured non-scored accounts	**(21)**	(72)
Credit card LGD alignment	**(55)**	(55)
Other	**43**	33
	38	(13)
Commercial Banking	**(1)**	(2)
Total	**524**	495

Notable movements from 31 December 2020 include:

UK Mortgages

Adjustment to modelled forecast parameters: £140 million (31 December 2020: £193 million)

Adjustments to the estimated defaults used within the ECL calculation were introduced at year end following the adoption of new default forecast models. Work has progressed through the period with initial model changes identified which reduce the scale of adjustment required. The scale of the adjustment has also reduced as the impact of under-sensitivity lessens when applied to the improved economic outlook.

Other: £105 million (31 December 2020: £51 million)

The increase in the scale of the judgement reflects additional adjustment to capture risks relating to fire safety and cladding uncertainty within assessment of affordability and asset valuations, not captured by underlying models. The risk is now deemed sufficiently material to address through judgement, given that more cases have been assessed as having defective cladding, or other fire safety issues, together with emerging evidence of higher arrears and weaker sales values relative to the wider portfolio.

Other Retail

Unsecured non-scored accounts: £(21) million (31 December 2020: £(72) million)

Due to a shortcoming in the models, it is not possible to retrieve relevant credit data for a number of accounts and therefore no probability of default (PD) is available and no assessment of whether there has been a significant increase in credit risk (SICR) can be carried out. Work has progressed during 2021 to resolve this issue. The reduction therefore reflects that an adjustment is required on fewer accounts.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 3: Segmental analysis

Lloyds Banking Group provides a wide range of banking and financial services in the UK and in certain locations overseas. The Group Executive Committee (GEC) remains the chief operating decision maker for the Group.

The segmental results and comparatives are presented on an underlying basis, the basis reviewed by the chief operating decision maker. The effects of certain asset sales, volatile items, the insurance grossing adjustment, liability management, restructuring, payment protection insurance provisions, the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments are excluded in arriving at underlying profit.

The Group’s activities are organised into three financial reporting segments: Retail; Commercial Banking; and Insurance and Wealth. There has been no change to the descriptions of these segments as provided in note 4 to the Group’s financial statements for the year ended 31 December 2020, neither has there been any change to the Group’s segmental accounting for internal segment services or derivatives entered into by units for risk management purposes since 31 December 2020.

The table below analyses the Group's income and profit by segment on an underlying basis and provides a reconciliation through to certain lines in the Group's statutory income statement. Total income, net of insurance claims is also analysed between external and inter-segment income. The Group's full segmental income statement on an underlying basis is shown on page 19.

Half-year to 30 June 2021	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims[1] £m	Profit before tax £m	External income £m	Inter-segment income (expense) £m
Underlying basis						
Retail	**4,218**	**812**	**5,030**	**2,335**	**5,713**	**(683)**
Commercial Banking	**1,153**	**677**	**1,830**	**1,388**	**1,693**	**137**
Insurance and Wealth	**36**	**660**	**696**	**89**	**685**	**11**
Other	**11**	**268**	**279**	**253**	**(256)**	**535**
Group	**5,418**	**2,417**	**7,835**	**4,065**	**7,835**	**—**
Reconciling items:						
Insurance grossing adjustment	**(938)**	**1,026**	**88**	**—**		
Market volatility and asset sales	**(18)**	**279**	**261**	**239**		
Amortisation of purchased intangibles	**—**	**—**	**—**	**(35)**		
Restructuring costs	**—**	**(8)**	**(8)**	**(255)**		
Fair value unwind and other items	**(89)**	**(8)**	**(97)**	**(109)**		
Group – statutory	**4,373**	**3,706**	**8,079**	**3,905**		

1 Total income, net of insurance claims does not include operating lease depreciation which, on a statutory basis, is included within operating costs.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 3: Segmental analysis (continued)

Half-year to 30 June 2020	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims[1] £m	Profit (loss) before tax £m	External income £m	Inter-segment income (expense) £m
Underlying basis						
Retail	4,233	919	5,152	212	6,027	(875)
Commercial Banking	1,222	658	1,880	(668)	1,633	247
Insurance and Wealth	14	853	867	379	857	10
Other	9	31	40	(204)	(578)	618
Group	5,478	2,461	7,939	(281)	7,939	—
Reconciling items:						
Insurance grossing adjustment	1,132	(1,018)	114	—		
Market volatility and asset sales	52	(75)	(23)	(43)		
Amortisation of purchased intangibles	—	—	—	(34)		
Restructuring costs	—	(37)	(37)	(133)		
Fair value unwind and other items	(106)	8	(98)	(111)		
Group – statutory	6,556	1,339	7,895	(602)		

Half-year to 31 December 2020	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims[1] £m	Profit (loss) before tax £m	External income £m	Inter-segment income (expense) £m
Underlying basis						
Retail	4,151	814	4,965	1,779	5,841	(876)
Commercial Banking	1,135	634	1,769	764	1,613	156
Insurance and Wealth	35	397	432	(41)	366	66
Other	(26)	209	183	(28)	(471)	654
Group	5,295	2,054	7,349	2,474	7,349	—
Reconciling items:						
Insurance grossing adjustment	(982)	1,045	63	—		
Market volatility and asset sales	(17)	(38)	(55)	(16)		
Amortisation of purchased intangibles	—	—	—	(35)		
Restructuring costs	—	(17)	(17)	(388)		
Fair value unwind and other items	(103)	(6)	(109)	(122)		
Payment protection insurance	—	—	—	(85)		
Group – statutory	4,193	3,038	7,231	1,828		

[1] Total income, net of insurance claims does not include operating lease depreciation which, on a statutory basis, is included within operating costs.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 3: Segmental analysis (continued)

	Segment external assets		**Segment customer deposits**		**Segment external liabilities**	
	At 30 June 2021	At 31 Dec 2020	**At 30 June 2021**	At 31 Dec 2020	**At 30 June 2021**	At 31 Dec 2020
	£m	£m	**£m**	£m	**£m**	£m
Retail	**369,274**	358,766	**309,838**	290,206	**314,829**	295,229
Commercial Banking	**133,243**	142,042	**149,229**	145,596	**186,214**	189,302
Insurance and Wealth	**192,625**	183,348	**14,818**	14,072	**199,756**	190,771
Other	**184,545**	187,113	**8,464**	10,194	**127,002**	146,554
Total Group	**879,687**	871,269	**482,349**	460,068	**827,801**	821,856

Note 4: Net fee and commission income

	Half-year to 30 June 2021	Half-year to 30 June 2020	Half-year to 31 Dec 2020
	£m	£m	£m
Fee and commission income:			
Current accounts	**312**	307	308
Credit and debit card fees	**384**	350	398
Commercial banking and treasury fees	**215**	120	154
Unit trust and insurance broking	**58**	66	80
Factoring	**38**	42	34
Other fees and commissions	**287**	236	213
Total fee and commission income	**1,294**	1,121	1,187
Fee and commission expense	**(601)**	(558)	(590)
Net fee and commission income	**693**	563	597

Current account and credit and debit card fees principally arise in Retail; commercial banking, treasury and factoring fees arise in Commercial Banking; and unit trust and insurance broking fees arise in Insurance and Wealth.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 5: Insurance claims

Insurance claims comprise:	**Half-year to 30 June 2021 £m**	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Life insurance and investment contracts			
Claims and surrenders	**(4,465)**	(3,647)	(4,023)
Change in insurance and participating investment contracts	**(4,395)**	3,000	(7,590)
Change in non-participating investment contracts	**(2,642)**	1,574	(3,512)
	(11,502)	927	(15,125)
Reinsurers' share	**181**	167	251
	(11,321)	1,094	(14,874)
Change in unallocated surplus	**(20)**	85	(28)
Total life insurance and investment contracts	**(11,341)**	1,179	(14,902)
Non-life insurance			
Total non-life insurance claims, net of reinsurance	**(148)**	(156)	(162)
Total insurance claims	**(11,489)**	1,023	(15,064)

Note 6: Operating expenses

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Salaries and social security costs	**1,555**	1,493	1,479
Pensions and other post-retirement benefit schemes (note 14)	**284**	272	294
Restructuring and other staff costs	**117**	129	168
	1,956	1,894	1,941
Premises and equipment	**130**	237	230
Other expenses:			
IT, data processing and communications	**584**	474	539
UK bank levy	**—**	—	211
Operations, marketing and other	**559**	488	531
	1,143	962	1,281
Depreciation and amortisation	**1,243**	1,398	1,334
Goodwill impairment	**—**	—	4
Regulatory provisions (note 15)	**425**	177	287
Total operating expenses	**4,897**	4,668	5,077

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 7: Impairment

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Impact of transfers between stages	**145**	1,263	206
Other changes in credit quality	**(506)**	2,111	216
Additions (repayments)	**(366)**	211	(14)
Methodology and model changes	**3**	44	108
Other items	**1**	200	(190)
	(868)	2,566	120
Total impairment (credit) charge	**(723)**	3,829	326
In respect of:			
Loans and advances to banks	**(3)**	21	(16)
Loans and advances to customers	**(622)**	3,464	386
Debt securities	**—**	1	—
Financial assets held at amortised cost	**(625)**	3,486	370
Other assets	**2**	13	(8)
Impairment (credit) charge on drawn balances	**(623)**	3,499	362
Loan commitments and financial guarantees	**(98)**	324	(35)
Financial assets at fair value through other comprehensive income	**(2)**	6	(1)
Total impairment (credit) charge	**(723)**	3,829	326

Total impairment includes a release of £41 million (half-year to 30 June 2020: charge of £21 million; half-year to 31 December 2020: charge of £20 million) in respect of residual value impairment and voluntary terminations within the Group's UK Motor Finance business.

The Group's impairment charge comprises the following:

Impact of transfers between stages
The net impact on the impairment charge of transfers between stages.

Other changes in credit quality
Changes in loss allowance as a result of movements in risk parameters that reflect changes in customer credit quality, but which have not resulted in a transfer to a different stage. This also contains the impact on the impairment charge of write-offs and recoveries, where the related loss allowances are reassessed to reflect the view of credit quality at the balance sheet date and therefore the ultimate realisable or recoverable value.

Additions (repayments)
Expected loss allowances are recognised on origination of new loans or further drawdowns of existing facilities. Repayments relate to the reduction of loss allowances resulting from the repayment of outstanding balances that have been provided against.

Methodology and model changes
Increase or decrease in impairment charge as a result of adjustments to the models used for expected credit loss calculations; either as changes to the model inputs or to the underlying assumptions, as well as the impact of changing the models used.

Other items
For the half-year to 30 June 2020 a central adjustment of £200 million was included to reflect the adjusted severe downside economic scenario.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 8: Tax expense

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2021 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

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

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Profit (loss) before tax	**3,905**	(602)	1,828
UK corporation tax thereon at 19 per cent (2020: 19 per cent)	**(742)**	114	(347)
Impact of surcharge on banking profits	**(229)**	44	(151)
Non-deductible costs: conduct charges	**(7)**	(11)	(13)
Non-deductible costs: bank levy	**—**	—	(38)
Other non-deductible costs	**(67)**	(40)	(34)
Non-taxable income	**35**	76	(17)
Tax relief on coupons on other equity instruments	**40**	44	42
Tax-exempt gains on disposals	**36**	3	78
Tax losses where no deferred tax recognised	**(9)**	(1)	(57)
Remeasurement of deferred tax due to rate changes	**970**	354	(4)
Differences in overseas tax rates	**(25)**	13	2
Policyholder tax	**(36)**	(23)	(23)
Policyholder deferred tax asset in respect of life assurance expenses	**4**	—	49
Adjustments in respect of prior years	**(10)**	48	56
Tax effect of share of results of joint ventures	**—**	—	(3)
Tax (expense) credit	**(40)**	621	(460)

The Finance Act 2021, which was substantively enacted on 24 May 2021, increases the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023. The impact of this rate change is an increase in the Group's net deferred tax asset as at 30 June 2021 of £786 million, comprising a £970 million credit included in the income statement and a £184 million charge included in equity. The tax credit in the half-year to 30 June 2020 included an uplift in deferred tax assets following the announcement by the UK Government that it would maintain the corporation tax rate at 19 per cent.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 9: Earnings per share

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Profit (loss) attributable to ordinary shareholders – basic and diluted	**3,611**	(234)	1,099

	Half-year to 30 June 2021 million	Half-year to 30 June 2020 million	Half-year to 31 Dec 2020 million
Weighted-average number of ordinary shares in issue – basic	**70,894**	70,434	70,776
Adjustment for share options and awards	**854**	—	697
Weighted-average number of ordinary shares in issue – diluted	**71,748**	70,434	71,473
Basic earnings (loss) per share	**5.1p**	(0.3p)	1.5p
Diluted earnings (loss) per share	**5.0p**	(0.3p)	1.5p

Note 10: Financial assets at fair value through profit or loss

	At 30 June 2021 £m	At 31 Dec 2020 £m
Trading assets	**17,772**	20,825
Other financial assets at fair value through profit or loss:		
Treasury and other bills	**18**	18
Loans and advances to customers	**10,354**	11,244
Loans and advances to banks	**3,656**	4,238
Debt securities	**39,021**	38,852
Equity shares	**106,768**	96,449
	159,817	150,801
Total financial assets at fair value through profit or loss	**177,589**	171,626

Included in the above is £155,583 million (31 December 2020: £145,905 million) of assets relating to the insurance businesses.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 11: Derivative financial instruments

	At 30 June 2021		At 31 December 2020	
	Fair value of assets	**Fair value of liabilities**	Fair value of assets	Fair value of liabilities
	£m	**£m**	£m	£m
Hedging				
Derivatives designated as fair value hedges	**123**	**284**	478	256
Derivatives designated as cash flow hedges	**59**	**131**	338	428
	182	**415**	816	684
Trading				
Exchange rate contracts	**4,780**	**4,062**	6,779	7,414
Interest rate contracts	**16,700**	**12,653**	21,644	18,564
Credit derivatives	**101**	**206**	108	174
Equity and other contracts	**430**	**615**	266	477
	22,011	**17,536**	28,797	26,629
Total recognised derivative assets/liabilities	**22,193**	**17,951**	29,613	27,313

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 12: Financial assets at amortised cost

Half-year to 30 June 2021

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Loans and advances to banks										
At 1 January 2021	10,752	—	—	—	10,752	6	—	—	—	6
Exchange and other adjustments	(139)	—	—	—	(139)	—	—	—	—	—
Additions (repayments)	201	—	—	—	201	2	—	—	—	2
Other changes in credit quality						(5)	—	—	—	(5)
Credit to the income statement						(3)	—	—	—	(3)
At 30 June 2021	10,814	—	—	—	10,814	3	—	—	—	3
Allowance for impairment losses	(3)	—	—	—	(3)					
Net carrying amount	10,811	—	—	—	10,811					
Loans and advances to customers										
At 1 January 2021	433,943	51,659	6,490	12,511	504,603	1,372	2,145	1,982	261	5,760
Exchange and other adjustments[1]	(1,953)	(24)	(80)	51	(2,006)	1	(2)	97	67	163
Transfers to Stage 1	11,183	(11,175)	(8)		—	362	(360)	(2)		—
Transfers to Stage 2	(10,922)	11,371	(449)		—	(66)	158	(92)		—
Transfers to Stage 3	(334)	(1,229)	1,563		—	(9)	(175)	184		—
Impact of transfers between stages	(73)	(1,033)	1,106		—	(261)	257	164		160
						26	(120)	254		160
Other changes in credit quality						(143)	(234)	31	(89)	(435)
Additions (repayments)	9,007	(4,568)	(801)	(663)	2,975	(65)	(176)	(73)	(36)	(350)
Methodology and model changes						(5)	8	—	—	3
(Credit) charge to the income statement						(187)	(522)	212	(125)	(622)
Advances written off			(603)	(13)	(616)			(603)	(13)	(616)
Recoveries of advances written off in previous years			72	—	72			72	—	72
Discount unwind								(85)	—	(85)
At 30 June 2021	440,924	46,034	6,184	11,886	505,028	1,186	1,621	1,675	190	4,672
Allowance for impairment losses	(1,186)	(1,621)	(1,675)	(190)	(4,672)					
Net carrying amount	439,738	44,413	4,509	11,696	500,356					

1. Exchange and other adjustments includes the impact of movements in exchange rates, derecognising assets as a result of modifications and adjustments in respect of purchased or originated credit-impaired financial assets (POCI). Where a POCI asset's expected credit loss is less than its expected credit loss on purchase or origination, the increase in its carrying value is recognised within gross loans, rather than as a negative impairment allowance.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 12: Financial assets at amortised cost (continued)

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities										
At 1 January 2021	**5,406**	**—**	**2**	**—**	**5,408**	**1**	**—**	**2**	**—**	**3**
Exchange and other adjustments	**(47)**	**—**	**—**	**—**	**(47)**	**—**	**—**	**—**	**—**	**—**
Additions (repayments)	**(350)**	**—**	**—**	**—**	**(350)**	**—**	**—**	**—**	**—**	**—**
Charge to the income statement						**—**	**—**	**—**	**—**	**—**
At 30 June 2021	**5,009**	**—**	**2**	**—**	**5,011**	**1**	**—**	**2**	**—**	**3**
Allowance for impairment losses	**(1)**	**—**	**(2)**	**—**	**(3)**					
Net carrying amount	**5,008**	**—**	**—**	**—**	**5,008**					
Total financial assets at amortised cost	**455,557**	**44,413**	**4,509**	**11,696**	**516,175**					

The total allowance for impairment losses includes £136 million (31 December 2020: £192 million) in respect of residual value impairment and voluntary terminations within the Group's UK Motor Finance business.

Movements in UK retail mortgage balances were as follows:

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
UK retail mortgages										
At 1 January 2021	**251,418**	**29,018**	**1,859**	**12,511**	**294,806**	**104**	**468**	**191**	**261**	**1,024**
Exchange and other adjustments[1]	**—**	**—**	**—**	**51**	**51**	**—**	**—**	**—**	**67**	**67**
Transfers to Stage 1	**3,745**	**(3,742)**	**(3)**		**—**	**26**	**(26)**	**—**		**—**
Transfers to Stage 2	**(6,554)**	**6,847**	**(293)**		**—**	**(7)**	**26**	**(19)**		**—**
Transfers to Stage 3	**(28)**	**(666)**	**694**		**—**	**—**	**(29)**	**29**		**—**
Impact of transfers between stages	**(2,837)**	**2,439**	**398**		**—**	**(20)**	**62**	**26**		**68**
						(1)	**33**	**36**		**68**
Other changes in credit quality						**13**	**(65)**	**(31)**	**(89)**	**(172)**
Additions (repayments)	**13,960**	**(1,687)**	**(322)**	**(663)**	**11,288**	**8**	**(25)**	**(20)**	**(36)**	**(73)**
Charge (credit) to the income statement						**20**	**(57)**	**(15)**	**(125)**	**(177)**
Advances written off			**(16)**	**(13)**	**(29)**			**(16)**	**(13)**	**(29)**
Recoveries of advances written off in previous years			**5**	**—**	**5**			**5**	**—**	**5**
Discount unwind								**10**	**—**	**10**
At 30 June 2021	**262,541**	**29,770**	**1,924**	**11,886**	**306,121**	**124**	**411**	**175**	**190**	**900**
Allowance for impairment losses	**(124)**	**(411)**	**(175)**	**(190)**	**(900)**					
Net carrying amount	**262,417**	**29,359**	**1,749**	**11,696**	**305,221**					

[1] Exchange and other adjustments includes the impact of movements in exchange rates, derecognising assets as a result of modifications and adjustments in respect of purchased or originated credit-impaired financial assets. Where a POCI asset's expected credit loss is less than its expected credit loss on purchase or origination, the increase in its carrying value is recognised within gross loans, rather than as a negative impairment allowance.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 12: Financial assets at amortised cost (continued)

Movements in allowance for expected credit losses in respect of undrawn balances were as follows:

	Allowance for expected credit losses				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Undrawn balances					
At 1 January 2021	**212**	**234**	**13**	**—**	**459**
Exchange and other adjustments	**(2)**	**—**	**—**	**—**	**(2)**
Transfers to Stage 1	**63**	**(63)**	**—**		**—**
Transfers to Stage 2	**(10)**	**10**	**—**		**—**
Transfers to Stage 3	**—**	**(4)**	**4**		**—**
Impact of transfers between stages	**(50)**	**35**	**—**		**(15)**
	3	**(22)**	**4**		**(15)**
Other items credited to the income statement	**(41)**	**(33)**	**(9)**	**—**	**(83)**
Credit to the income statement	**(38)**	**(55)**	**(5)**	**—**	**(98)**
At 30 June 2021	**172**	**179**	**8**	**—**	**359**

The Group's total impairment allowances were as follows:

	Allowance for expected credit losses				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
In respect of:					
Loans and advances to banks	**3**	**—**	**—**	**—**	**3**
Loans and advances to customers:					
UK retail mortgages	**124**	**411**	**175**	**190**	**900**
Other	**1,062**	**1,210**	**1,500**	**—**	**3,772**
	1,186	**1,621**	**1,675**	**190**	**4,672**
Debt securities	**1**	**—**	**2**	**—**	**3**
Financial assets at amortised cost	**1,190**	**1,621**	**1,677**	**190**	**4,678**
Other assets	**—**	**—**	**21**	**—**	**21**
Provisions in relation to loan commitments and financial guarantees	**172**	**179**	**8**	**—**	**359**
Total	**1,362**	**1,800**	**1,706**	**190**	**5,058**
Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item)	**3**	**—**	**—**	**—**	**3**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 12: Financial assets at amortised cost (continued)

Year ended 31 December 2020

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to banks										
At 1 January 2020	9,777	—	—	—	9,777	2	—	—	—	2
Exchange and other adjustments	50	—	—	—	50	(1)	—	—	—	(1)
Additions (repayments)	925	—	—	—	925	—	—	—	—	—
Charge to the income statement						5	—	—	—	5
At 31 December 2020	10,752	—	—	—	10,752	6	—	—	—	6
Allowance for impairment losses	(6)	—	—	—	(6)					
Net carrying amount	10,746	—	—	—	10,746					
Loans and advances to customers										
At 1 January 2020	449,975	28,543	6,015	13,714	498,247	675	995	1,447	142	3,259
Exchange and other adjustments[1]	1,308	(59)	(422)	(8)	819	—	(1)	54	21	74
Transfers to Stage 1	4,972	(4,956)	(16)		—	146	(143)	(3)		—
Transfers to Stage 2	(28,855)	29,467	(612)		—	(218)	268	(50)		—
Transfers to Stage 3	(1,633)	(2,031)	3,664		—	(9)	(156)	165		—
Impact of transfers between stages	(25,516)	22,480	3,036		—	(85)	883	569		1,367
						(166)	852	681		1,367
Other changes in credit quality						857	(16)	1,196	167	2,204
Additions (repayments)	8,176	695	(802)	(1,156)	6,913	50	145	(38)	(30)	127
Methodology and model changes						(44)	170	26	—	152
Charge to the income statement						697	1,151	1,865	137	3,850
Advances written off			(1,587)	(39)	(1,626)			(1,587)	(39)	(1,626)
Recoveries of advances written off in previous years			250	—	250			250	—	250
Discount unwind								(47)	—	(47)
At 31 December 2020	433,943	51,659	6,490	12,511	504,603	1,372	2,145	1,982	261	5,760
Allowance for impairment losses	(1,372)	(2,145)	(1,982)	(261)	(5,760)					
Net carrying amount	432,571	49,514	4,508	12,250	498,843					

1 Exchange and other adjustments includes the impact of movements in exchange rates, derecognising assets as a result of modifications and adjustments in respect of purchased or originated credit-impaired financial assets. Where a POCI asset's expected credit loss is less than its expected credit loss on purchase or origination, the increase in its carrying value is recognised within gross loans, rather than as a negative impairment allowance.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 12: Financial assets at amortised cost (continued)

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities										
At 1 January 2020	5,544	—	3	—	5,547	—	—	3	—	3
Exchange and other adjustments	(21)	—	—	—	(21)	—	—	—	—	—
Additions (repayments)	(117)	—	—	—	(117)	—	—	—	—	—
Charge to the income statement						1	—	—	—	1
Financial assets that have been written off during the year			(1)	—	(1)			(1)	—	(1)
At 31 December 2020	5,406	—	2	—	5,408	1	—	2	—	3
Allowance for impairment losses	(1)	—	(2)	—	(3)					
Net carrying amount	5,405	—	—	—	5,405					
Total financial assets at amortised cost	448,722	49,514	4,508	12,250	514,994					

Movements in UK retail mortgage balances were as follows:

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK retail mortgages										
At 1 January 2020	257,043	16,935	1,506	13,714	289,198	23	281	122	142	568
Exchange and other adjustments[1]	—	—	—	(8)	(8)	—	—	—	21	21
Transfers to Stage 1	2,418	(2,414)	(4)		—	17	(17)	—		—
Transfers to Stage 2	(16,463)	16,882	(419)		—	(4)	22	(18)		—
Transfers to Stage 3	(199)	(974)	1,173		—	—	(35)	35		—
Impact of transfers between stages	(14,244)	13,494	750		—	(15)	198	66		249
						(2)	168	83		249
Other changes in credit quality						63	(26)	(23)	167	181
Additions (repayments)	8,619	(1,411)	(375)	(1,156)	5,677	14	(15)	(13)	(30)	(44)
Methodology and model changes						6	60	24	—	90
Charge to the income statement						81	187	71	137	476
Advances written off			(37)	(39)	(76)			(37)	(39)	(76)
Recoveries of advances written off in previous years			15	—	15			15	—	15
Discount unwind								20	—	20
At 31 December 2020	251,418	29,018	1,859	12,511	294,806	104	468	191	261	1,024
Allowance for impairment losses	(104)	(468)	(191)	(261)	(1,024)					
Net carrying amount	251,314	28,550	1,668	12,250	293,782					

1 Exchange and other adjustments includes the impact of movements in exchange rates, derecognising assets as a result of modifications and adjustments in respect of purchased or originated credit-impaired financial assets. Where a POCI asset's expected credit loss is less than its expected credit loss on purchase or origination, the increase in its carrying value is recognised within gross loans, rather than as a negative impairment allowance.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 12: Financial assets at amortised cost (continued)

Movements in allowance for expected credit losses in respect of undrawn balances were as follows:

	Allowance for expected credit losses				
	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Undrawn balances					
At 1 January 2020	95	77	5	—	177
Exchange and other adjustments	(6)	(1)	—	—	(7)
Transfers to Stage 1	19	(19)	—		—
Transfers to Stage 2	(11)	11	—		—
Transfers to Stage 3	(1)	(6)	7		—
Impact of transfers between stages	(10)	102	10		102
	(3)	88	17		102
Other items charged to the income statement	126	70	(9)	—	187
Charge to the income statement	123	158	8	—	289
At 31 December 2020	212	234	13	—	459

The Group's total impairment allowances were as follows:

	Allowance for expected credit losses				
	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
In respect of:					
Loans and advances to banks	6	—	—	—	6
Loans and advances to customers:					
UK retail mortgages	104	468	191	261	1,024
Other	1,268	1,677	1,791	—	4,736
	1,372	2,145	1,982	261	5,760
Debt securities	1	—	2	—	3
Financial assets at amortised cost	1,379	2,145	1,984	261	5,769
Other assets	—	—	19	—	19
Provisions in relation to loan commitments and financial guarantees	212	234	13	—	459
Total	1,591	2,379	2,016	261	6,247
Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item)	5	—	—	—	5

The movement tables are compiled by comparing the position at the reporting date to that at the beginning of the year.

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at the period end, with the exception of those held within purchased or originated credit-impaired, which are not transferable.

Additions (repayments) comprise new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before acquiring a full allowance and subsequent write-off.

Loans and advances to customers include advances securitised under the Group's securitisation and covered bond programmes (see note 13).

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 13: Debt securities in issue

	At 30 June 2021			At 31 December 2020		
	At fair value through profit or loss	**At amortised cost**	**Total**	At fair value through profit or loss	At amortised cost	Total
	£m	**£m**	**£m**	£m	£m	£m
Medium-term notes issued	**6,818**	**40,423**	**47,241**	6,783	42,621	49,404
Covered bonds	**—**	**20,120**	**20,120**	—	23,980	23,980
Certificates of deposit	**—**	**4,225**	**4,225**	—	7,998	7,998
Securitisation notes	**38**	**4,093**	**4,131**	45	4,406	4,451
Commercial paper	**—**	**12,407**	**12,407**	—	8,392	8,392
	6,856	**81,268**	**88,124**	6,828	87,397	94,225

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

Securitisation programmes

At 30 June 2021, external parties held £4,131 million (31 December 2020: £4,451 million) and the Group's subsidiaries held £27,038 million (31 December 2020: £27,448 million) of total securitisation notes in issue of £31,169 million (31 December 2020: £31,899 million). The notes are secured on loans and advances to customers and debt securities held at amortised cost amounting to £33,752 million (31 December 2020: £34,584 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. The structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet.

Covered bond programmes

At 30 June 2021, external parties held £20,120 million (31 December 2020: £23,980 million) and the Group's subsidiaries held none (31 December 2020: £100 million) of total covered bonds in issue of £20,120 million (31 December 2020: £24,080 million). The bonds are secured on certain loans and advances to customers amounting to £31,698 million (31 December 2020: £34,960 million) that have been assigned to bankruptcy remote limited liability partnerships. These loans are retained on the Group's balance sheet.

Cash deposits of £4,674 million (31 December 2020: £3,930 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations are held by the Group.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 14: Retirement benefit obligations

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

	At 30 June 2021 £m	At 31 Dec 2020 £m
Defined benefit pension schemes:		
Fair value of scheme assets	**49,299**	51,127
Present value of funded obligations	**(46,297)**	(49,549)
Net pension scheme asset	**3,002**	1,578
Other post-retirement schemes	**(102)**	(109)
Net retirement benefit asset	**2,900**	1,469
Recognised on the balance sheet as:		
Retirement benefit assets	**3,134**	1,714
Retirement benefit obligations	**(234)**	(245)
Net retirement benefit asset	**2,900**	1,469

Movements in the Group's net post-retirement defined benefit scheme asset during the period were as follows:

	£m
Asset at 1 January 2021	**1,469**
Income statement charge	**(122)**
Employer contributions	**949**
Remeasurement	**604**
Asset at 30 June 2021	**2,900**

The charge to the income statement in respect of pensions and other post-retirement benefit schemes is comprised as follows:

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m	Half-year to 31 Dec 2020 £m
Defined benefit pension schemes	**122**	121	126
Defined contribution schemes	**162**	151	168
Total charge to the income statement	**284**	272	294

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 14: Retirement benefit obligations (continued)

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

	At 30 June 2021 %	At 31 Dec 2020 %
Discount rate	**1.93**	1.44
Rate of inflation:		
Retail Price Index	**3.10**	2.80
Consumer Price Index	**2.70**	2.41
Rate of salary increases	**0.00**	0.00
Weighted-average rate of increase for pensions in payment	**2.81**	2.61

Note 15: Other provisions

	Provisions for financial commitments and guarantees £m	**Regulatory provisions £m**	**Other £m**	**Total £m**
At 1 January 2021	**459**	**642**	**814**	**1,915**
Exchange and other adjustments	**(2)**	**(4)**	**(10)**	**(16)**
Provisions applied	**—**	**(398)**	**(152)**	**(550)**
Charge for the period	**(98)**	**425**	**82**	**409**
At 30 June 2021	**359**	**665**	**734**	**1,758**

Regulatory provisions

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers, investors and other third parties and is subject to legal proceedings and other legal actions. Where significant, provisions are held against the costs expected to be incurred in relation to these matters and matters arising from related internal reviews. During the half-year to 30 June 2021 the Group charged a further £425 million in respect of legal actions and other regulatory matters, including a charge of £91 million for the FCA fine in relation to General Insurance renewals errors, a charge in respect of HBOS Reading and charges for other legacy programmes.

The unutilised balance at 30 June 2021 was £665 million (31 December 2020: £642 million). The most significant items are as follows.

Payment protection insurance (excluding MBNA)

The Group has made provisions for PPI costs over a number of years totalling £21,960 million. Good progress continues to be made towards ensuring operational completeness, with the final validation of information requests and complaints with third parties at an advanced stage, ahead of an orderly programme close. At 30 June 2021, a provision of £57 million remained outstanding (excluding amounts related to MBNA), with total cash payments of £144 million during the six months to 30 June 2021.

In addition to the above provision, the Group continues to challenge PPI litigation cases, with mainly administration costs and some potential redress recognised within the first half regulatory provisions.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 15: Other provisions (continued)

Payment protection insurance (MBNA)

As announced in December 2016, the Group's exposure continues to remain capped at £240 million under the terms of the MBNA sale and purchase agreement. No additional charge has been made by MBNA to its PPI provision in the half-year to 30 June 2021.

HBOS Reading – review

The Group completed its compensation assessment for those within the Customer Review in 2019 with more than £109 million of compensation paid, in addition to £15 million for ex-gratia payments and £6 million for the reimbursement of legal fees. The Group is applying the recommendations from Sir Ross Cranston’s review, issued in December 2019, including a reassessment of direct and consequential losses by an independent panel, an extension of debt relief and a wider definition of de facto directors. Further details of the panel were announced on 3 April 2020 and the panel's full scope and methodology was published on 7 July 2020. The panel’s stated objective is to consider cases via a non-legalistic and fair process and to make their decisions in a generous, fair and common-sense manner. Details of an appeal process for the further assessments of debt relief and de facto director status have also been announced.

In 2020 a charge of £159 million was recorded, bringing the lifetime cost to £435 million, covering both compensation payments and operational costs.

In the half-year to 30 June 2021 the Group has continued to make progress assessing further debt relief and de facto director status claims and has now completed 99 per cent of preliminary assessments. The independent panel has also started to issue its first outcomes.

The Group has charged £150 million in the half-year to 30 June 2021 for the independent panel and Dame Linda Dobbs review of the Group’s handling of HBOS Reading between January 2009 and January 2017. A significant part of this charge relates to the actual and foreseeable future operational costs of these activities which are both now expected to extend into 2022, in addition to awards from the independent panel to date. The first half charge increases the lifetime cost to £585 million. The panel is continuing its assessment of awards which could result in further significant charges over 2021 and 2022 but it is not possible to reliably estimate the potential impact or timings at this stage. The Group is committed to implementing Sir Ross's recommendations in full.

Arrears handling related activities

To date the Group has provided a total of £1,017 million for arrears handling activities; the unutilised balance at 30 June 2021 was £38 million.

Customer claims in relation to insurance branch business in Germany

The Group continues to receive claims from customers in Germany relating to policies issued by Clerical Medical Investment Group Limited (subsequently renamed Scottish Widows Limited), with smaller numbers of claims received from customers in Austria and Italy. The Group provided a further £21 million in the half-year to 30 June 2021, bringing the total provided to date to £695 million (31 December 2020: £674 million); utilisation of the provision was £22 million in the half-year to 30 June 2021 (year ended 31 December 2020: £28 million); the remaining unutilised provision as at 30 June 2021 was £92 million (31 December 2020: £93 million). The ultimate financial effect, which could be significantly different from the current provision, will be known only once all relevant claims have been resolved.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 16: Contingent liabilities, commitments and guarantees

Interchange fees

With respect to multi-lateral interchange fees (MIFs), the Group is not involved in the ongoing litigation which involves the card schemes Visa and Mastercard (as described below). However, the Group is a member/licensee of Visa and Mastercard and other card schemes. The litigation in question is as follows:

- litigation brought by retailers against both Visa and Mastercard continues in the English Courts in which retailers are seeking damages on grounds that Visa and Mastercard’s MIFs breached competition law (this includes a judgment of the Supreme Court in June 2020 upholding the Court of Appeal's finding in 2018 that historic interchange arrangements of Mastercard and Visa infringed competition law); and
- litigation brought on behalf of UK consumers in the English Courts against Mastercard, which the Supreme Court has now confirmed can proceed in the lower courts.

Any impact on the Group of the litigation against Visa and Mastercard remains uncertain at this time, such that it is not practicable for the Group to provide an estimate of any potential financial effect. Insofar as Visa is required to pay damages to retailers for interchange fees set prior to June 2016, contractual arrangements to allocate liability have been agreed between various UK banks (including the Group) and Visa Inc, as part of Visa Inc’s acquisition of Visa Europe in 2016. These arrangements cap the maximum amount of liability to which the Group may be subject and this cap is set at the cash consideration received by the Group for the sale of its stake in Visa Europe to Visa Inc in 2016. In 2016, the Group received Visa preference stock as part of the consideration for the sale of its shares in Visa Europe. In 2020, some of these Visa preference shares were converted into Visa Inc Class A common stock (in accordance with the provisions of the Visa Europe sale documentation) and they were subsequently sold by the Group. The sale had no impact on this contingent liability.

LIBOR and other trading rates

Certain Group companies, together with other panel banks, have been named as defendants in private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US Dollar, Japanese Yen and Sterling London Interbank Offered Rate and the Australian BBSW reference rate. Certain of the plaintiffs' claims have been dismissed by the US Federal Court for the Southern District of New York (subject to appeals).

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

The Swiss Competition Commission concluded its investigation against Lloyds Bank plc in June 2019.

It is currently not possible to predict the scope and ultimate outcome on the Group of any private lawsuits or any related challenges to the interpretation or validity of any of the Group's contractual arrangements, including their timing and scale. As such, it is not practicable to provide an estimate of any potential financial effect.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 16: Contingent liabilities, commitments and guarantees (continued)

Tax authorities

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities of approximately £835 million (including interest) and a reduction in the Group's deferred tax asset of approximately £330 million. The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

There are a number of other open matters on which the Group is in discussions with HMRC (including the tax treatment of certain costs arising from the divestment of TSB Banking Group plc), none of which is expected to have a material impact on the financial position of the Group.

Other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows. Where there is a contingent liability related to an existing provision the relevant disclosures are included within note 15.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 16: Contingent liabilities, commitments and guarantees (continued)

Contingent liabilities, commitments and guarantees arising from the banking business

	At 30 June 2021 £m	At 31 Dec 2020 £m
Contingent liabilities		
Acceptances and endorsements	**157**	131
Other:		
Other items serving as direct credit substitutes	**513**	317
Performance bonds, including letters of credit, and other transaction-related contingencies	**1,994**	2,105
	2,507	2,422
Total contingent liabilities	**2,664**	2,553
Commitments and guarantees		
Documentary credits and other short-term trade-related transactions	**1**	1
Forward asset purchases and forward deposits placed	**74**	127
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	**16,740**	20,179
Other commitments and guarantees	**89,944**	89,269
	106,684	109,448
1 year or over original maturity	**33,642**	38,299
Total commitments and guarantees	**140,401**	147,875

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £66,731 million (31 December 2020: £73,962 million) was irrevocable.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 17: Fair values of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine those fair values. Note 48 to the Group's 2020 financial statements details the definitions of the three levels in the fair value hierarchy.

Valuation control framework

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

Transfers into and out of level 3 portfolios

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

Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to the valuation methodology (techniques and inputs) disclosed in the Group's 2020 Annual Report and Accounts applied to these portfolios.

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

	At 30 June 2021		At 31 December 2020	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Loans and advances to banks	**10,811**	**10,812**	10,746	10,745
Loans and advances to customers	**500,356**	**501,187**	498,843	498,255
Debt securities	**5,008**	**5,001**	5,405	5,398
Financial assets at amortised cost	**516,175**	**517,000**	514,994	514,398
Financial liabilities				
Deposits from banks	**20,655**	**20,656**	31,465	31,468
Customer deposits	**482,349**	**482,513**	460,068	460,338
Debt securities in issue	**81,268**	**85,363**	87,397	93,152
Liabilities arising from non-participating investment contracts	**42,031**	**42,031**	38,452	38,452
Subordinated liabilities	**13,527**	**15,628**	14,261	16,410

Financial instruments classified as financial assets at fair value through profit or loss, derivative financial instruments, financial assets at fair value through other comprehensive income, assets arising from contracts held with reinsurers and financial liabilities at fair value through profit or loss are recognised at fair value.

The carrying amount of the following financial instruments is a reasonable approximation of fair value: cash and balances at central banks, items in the course of collection from banks, items in course of transmission to banks and notes in circulation. Fair values have not been disclosed for discretionary participating investment contracts. There is currently no agreed definition of fair valuation for discretionary participation features applied under IFRS and therefore the range of possible fair values of these contracts cannot be measured reliably.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 17: Fair values of financial assets and liabilities (continued)

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

The following tables provide an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group's consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable. There were no significant transfers between level 1 and level 2 during the period.

Financial assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2021				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	**—**	**12,676**	**9,844**	**22,520**
Loans and advances to banks	**—**	**3,818**	**—**	**3,818**
Debt securities	**16,427**	**26,330**	**1,708**	**44,465**
Treasury and other bills	**18**	**—**	**—**	**18**
Equity shares	**104,960**	**100**	**1,708**	**106,768**
Financial assets at fair value through profit or loss	**121,405**	**42,924**	**13,260**	**177,589**
Assets arising from contracts held with reinsurers	**—**	**19,102**	**—**	**19,102**
Total financial assets at fair value through profit or loss	**121,405**	**62,026**	**13,260**	**196,691**
Financial assets at fair value through other comprehensive income:				
Debt securities	**12,609**	**13,205**	**167**	**25,981**
Treasury and other bills	**25**	**—**	**—**	**25**
Equity shares	**—**	**—**	**207**	**207**
Total financial assets at fair value through other comprehensive income	**12,634**	**13,205**	**374**	**26,213**
Derivative financial instruments	**33**	**21,092**	**1,068**	**22,193**
Total financial assets carried at fair value	**134,072**	**96,323**	**14,702**	**245,097**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 17: Fair values of financial assets and liabilities (continued)

Financial assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2020				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	—	12,508	11,501	24,009
Loans and advances to banks	—	4,467	—	4,467
Debt securities	20,376	24,353	1,954	46,683
Treasury and other bills	18	—	—	18
Equity shares	94,687	171	1,591	96,449
Financial assets at fair value through profit or loss	115,081	41,499	15,046	171,626
Assets arising from contracts held with reinsurers	—	19,543	—	19,543
Total financial assets at fair value through profit or loss	115,081	61,042	15,046	191,169
Financial assets at fair value through other comprehensive income:				
Debt securities	14,784	12,437	180	27,401
Treasury and other bills	36	—	—	36
Equity shares	—	—	166	166
Total financial assets at fair value through other comprehensive income	14,820	12,437	346	27,603
Derivative financial instruments	60	28,572	981	29,613
Total financial assets carried at fair value	129,961	102,051	16,373	248,385

Financial liabilities	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2021				
Financial liabilities at fair value through profit or loss:				
Liabilities designated at fair value through profit or loss	**—**	**6,818**	**39**	**6,857**
Trading liabilities	**1,072**	**13,125**	**—**	**14,197**
Total financial liabilities at fair value through profit or loss	**1,072**	**19,943**	**39**	**21,054**
Derivative financial instruments	**56**	**16,626**	**1,269**	**17,951**
Total financial liabilities carried at fair value	**1,128**	**36,569**	**1,308**	**39,005**
At 31 December 2020				
Financial liabilities at fair value through profit or loss:				
Liabilities designated at fair value through profit or loss	—	6,783	45	6,828
Trading liabilities	778	15,040	—	15,818
Total financial liabilities at fair value through profit or loss	778	21,823	45	22,646
Derivative financial instruments	56	25,883	1,374	27,313
Total financial liabilities carried at fair value	834	47,706	1,419	49,959

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 17: Fair values of financial assets and liabilities (continued)

Movements in level 3 portfolio

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

	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other comprehensive income £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2021	**15,046**	**346**	**981**	**16,373**
Exchange and other adjustments	**(16)**	**(7)**	**3**	**(20)**
Losses recognised in the income statement within other income	**(135)**	**—**	**(154)**	**(289)**
Gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**—**	**43**	**—**	**43**
Purchases/increases to customer loans	**644**	**—**	**302**	**946**
Sales/repayments of customer loans	**(1,520)**	**(8)**	**(64)**	**(1,592)**
Transfers into the level 3 portfolio	**19**	**—**	**—**	**19**
Transfers out of the level 3 portfolio	**(778)**	**—**	**—**	**(778)**
At 30 June 2021	**13,260**	**374**	**1,068**	**14,702**
Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2021	**(187)**	**—**	**(156)**	**(343)**
At 1 January 2020	14,908	408	863	16,179
Exchange and other adjustments	106	11	19	136
Gains recognised in the income statement within other income	135	—	124	259
Losses recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	—	(67)	—	(67)
Purchases/increases to customer loans	851	—	2	853
Sales/repayments of customer loans	(839)	(7)	(81)	(927)
Transfers into the level 3 portfolio	73	—	41	114
Transfers out of the level 3 portfolio	(247)	—	(84)	(331)
At 30 June 2020	14,987	345	884	16,216
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2020	141	—	132	273

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 17: Fair values of financial assets and liabilities (continued)

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

	Financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Total financial liabilities carried at fair value £m
At 1 January 2021	**45**	**1,374**	**1,419**
Exchange and other adjustments	**—**	**3**	**3**
Gains recognised in the income statement within other income	**(2)**	**(247)**	**(249)**
Additions	**1**	**201**	**202**
Redemptions	**(5)**	**(19)**	**(24)**
Transfers into the level 3 portfolio	**—**	**—**	**—**
Transfers out of the level 3 portfolio	**—**	**(43)**	**(43)**
At 30 June 2021	**39**	**1,269**	**1,308**
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2021	**(2)**	**(244)**	**(246)**
At 1 January 2020	48	1,367	1,415
Exchange and other adjustments	—	20	20
Losses recognised in the income statement within other income	1	194	195
Additions	—	2	2
Redemptions	(2)	(8)	(10)
Transfers into the level 3 portfolio	—	51	51
Transfers out of the level 3 portfolio	—	(159)	(159)
At 30 June 2020	47	1,467	1,514
Losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2020	—	195	195

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 17: Fair values of financial assets and liabilities (continued)

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

			At 30 June 2021		
				Effect of reasonably possible alternative assumptions[2]	
	Valuation techniques	**Significant unobservable inputs[1]**	**Carrying value £m**	**Favourable changes £m**	**Unfavourable changes £m**
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (-50bps/+191bps)	**9,844**	**514**	**(498)**
Equity and venture capital investments	Market approach	Earnings multiple (0.3/14.4)	**1,682**	**143**	**(143)**
Equity and venture capital investments	Underlying asset/ net asset value (incl. property prices)[3]	n/a	**795**	**111**	**(123)**
Unlisted equities, debt securities and property partnerships in the life funds	Underlying asset/ net asset value (incl. property prices)[3]	n/a	**743**	**7**	**(21)**
Other			**196**	**9**	**(9)**
			13,260		
Financial assets at fair value through other comprehensive income			**374**		
Derivative financial assets					
Interest rate derivatives	Option pricing model	Interest rate volatility (8%/124%)	**1,068**	**6**	**(14)**
			1,068		
Level 3 financial assets carried at fair value			**14,702**		
Financial liabilities at fair value through profit or loss			**39**		
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Interest rate volatility (8%/124%)	**1,269**	**—**	**—**
			1,269		
Level 3 financial liabilities carried at fair value			**1,308**		

1 Ranges are shown where appropriate and represent the highest and lowest inputs used in the level 3 valuations.

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

3 Underlying asset/net asset values represent fair value.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 17: Fair values of financial assets and liabilities (continued)

			At 31 December 2020		
				Effect of reasonably possible alternative assumptions[2]	
	Valuation techniques	Significant unobservable inputs[1]	Carrying value	Favourable changes	Unfavourable changes
			£m	£m	£m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (-50bps/+215bps)	11,501	528	(651)
Equity and venture capital investments	Market approach	Earnings multiple (1.0/15.2)	1,905	72	(72)
Equity and venture capital investments	Underlying asset/ net asset value (incl. property prices)[3]	n/a	634	91	(121)
Unlisted equities, debt securities and property partnerships in the life funds	Underlying asset/ net asset value (incl. property prices)[3]	n/a	780	6	(34)
Other			226	10	(10)
			15,046		
Financial assets at fair value through other comprehensive income			346		
Derivative financial assets					
Interest rate derivatives	Option pricing model	Interest rate volatility (13%/128%)	981	8	(6)
			981		
Level 3 financial assets carried at fair value			16,373		
Financial liabilities at fair value through profit or loss			45		
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Interest rate volatility (13%/128%)	1,374	—	—
			1,374		
Level 3 financial liabilities carried at fair value			1,419		

1 Ranges are shown where appropriate and represent the highest and lowest inputs used in the level 3 valuations.

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

3 Underlying asset/net asset values represent fair value.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are unchanged from those described in the Group's 2020 financial statements.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and are unchanged from those described in note 48 to the Group's 2020 financial statements.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 18: Credit quality of loans and advances to banks and customers

Gross drawn exposures and expected credit loss allowances	Drawn exposures					Expected credit loss allowance				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
At 30 June 2021										
Loans and advances to banks:										
CMS 1-10	10,804	—	—	—	10,804	3	—	—	—	3
CMS 11-14	10	—	—	—	10	—	—	—	—	—
CMS 15-18	—	—	—	—	—	—	—	—	—	—
CMS 19	—	—	—	—	—	—	—	—	—	—
CMS 20-23	—	—	—	—	—	—	—	—	—	—
	10,814	—	—	—	10,814	3	—	—	—	3
Loans and advances to customers:										
Retail - UK Mortgages										
RMS 1-6	262,472	22,374	—	—	284,846	123	234	—	—	357
RMS 7-9	69	4,022	—	—	4,091	1	59	—	—	60
RMS 10	—	918	—	—	918	—	23	—	—	23
RMS 11-13	—	2,456	—	—	2,456	—	95	—	—	95
RMS 14	—	—	1,924	11,886	13,810	—	—	175	190	365
	262,541	29,770	1,924	11,886	306,121	124	411	175	190	900
Retail - credit cards										
RMS 1-6	9,032	1,124	—	—	10,156	61	46	—	—	107
RMS 7-9	1,720	1,028	—	—	2,748	60	115	—	—	175
RMS 10	150	317	—	—	467	6	60	—	—	66
RMS 11-13	54	467	—	—	521	—	169	—	—	169
RMS 14	—	—	323	—	323	—	—	140	—	140
	10,956	2,936	323	—	14,215	127	390	140	—	657
Retail - loans and overdrafts										
RMS 1-6	5,991	398	—	—	6,389	73	19	—	—	92
RMS 7-9	1,707	519	—	—	2,226	74	60	—	—	134
RMS 10	63	143	—	—	206	6	29	—	—	35
RMS 11-13	21	353	—	—	374	3	134	—	—	137
RMS 14	—	—	312	—	312	—	—	151	—	151
	7,782	1,413	312	—	9,507	156	242	151	—	549
Retail - UK Motor Finance										
RMS 1-6	11,638	1,464	—	—	13,102	142	36	—	—	178
RMS 7-9	687	490	—	—	1,177	7	29	—	—	36
RMS 10	—	134	—	—	134	—	19	—	—	19
RMS 11-13	22	184	—	—	206	—	45	—	—	45
RMS 14	—	—	233	—	233	—	—	152	—	152
	12,347	2,272	233	—	14,852	149	129	152	—	430
Retail - other										
RMS 1-6	15,661	485	—	—	16,146	25	15	—	—	40
RMS 7-9	1,982	357	—	—	2,339	6	43	—	—	49
RMS 10	—	5	—	—	5	—	—	—	—	—
RMS 11-13	431	356	—	—	787	—	29	—	—	29
RMS 14	—	—	244	—	244	—	—	54	—	54
	18,074	1,203	244	—	19,521	31	87	54	—	172
Total Retail	311,700	37,594	3,036	11,886	364,216	587	1,259	672	190	2,708

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 18: Credit quality of loans and advances to banks and customers (continued)

Gross drawn exposures and expected credit loss allowances (continued)	Drawn exposures					Expected credit loss allowance				
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
At 30 June 2021										
Commercial Banking										
CMS 1-10	**38,828**	**133**	**—**	**—**	**38,961**	**28**	**2**	**—**	**—**	**30**
CMS 11-14	**32,404**	**3,461**	**—**	**—**	**35,865**	**118**	**51**	**—**	**—**	**169**
CMS 15-18	**3,012**	**4,203**	**—**	**—**	**7,215**	**44**	**237**	**—**	**—**	**281**
CMS 19	**—**	**607**	**—**	**—**	**607**	**—**	**71**	**—**	**—**	**71**
CMS 20-23	**—**	**—**	**3,078**	**—**	**3,078**	**—**	**—**	**987**	**—**	**987**
	74,244	**8,404**	**3,078**	**—**	**85,726**	**190**	**361**	**987**	**—**	**1,538**
Other										
RMS 1-6	**877**	**36**	**—**	**—**	**913**	**9**	**1**	**—**	**—**	**10**
RMS 7-9	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
RMS 10	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
RMS 11-13	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
RMS 14	**—**	**—**	**70**	**—**	**70**	**—**	**—**	**16**	**—**	**16**
	877	**36**	**70**	**—**	**983**	**9**	**1**	**16**	**—**	**26**
CMS 1-10	**54,098**	**—**	**—**	**—**	**54,098**	**—**	**—**	**—**	**—**	**—**
CMS 11-14	**3**	**—**	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**—**
CMS 15-18	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
CMS 19	**2**	**—**	**—**	**—**	**2**	**—**	**—**	**—**	**—**	**—**
CMS 20-23	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	54,103	**—**	**—**	**—**	**54,103**	**—**	**—**	**—**	**—**	**—**
Central overlay	**—**	**—**	**—**	**—**	**—**	**400**	**—**	**—**	**—**	**400**
Total loans and advances to customers	**440,924**	**46,034**	**6,184**	**11,886**	**505,028**	**1,186**	**1,621**	**1,675**	**190**	**4,672**
In respect of:										
Retail	**311,700**	**37,594**	**3,036**	**11,886**	**364,216**	**587**	**1,259**	**672**	**190**	**2,708**
Commercial Banking	**74,244**	**8,404**	**3,078**	**—**	**85,726**	**190**	**361**	**987**	**—**	**1,538**
Other[1]	**54,980**	**36**	**70**	**—**	**55,086**	**409**	**1**	**16**	**—**	**426**
Total loans and advances to customers	**440,924**	**46,034**	**6,184**	**11,886**	**505,028**	**1,186**	**1,621**	**1,675**	**190**	**4,672**

1 Principally comprises reverse repurchase agreement balances.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 18: Credit quality of loans and advances to banks and customers (continued)

Gross drawn exposures and expected credit loss allowances	Drawn exposures					Expected credit loss allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 31 December 2020										
Loans and advances to banks:										
CMS 1-10	10,670	—	—	—	10,670	6	—	—	—	6
CMS 11-14	82	—	—	—	82	—	—	—	—	—
CMS 15-18	—	—	—	—	—	—	—	—	—	—
CMS 19	—	—	—	—	—	—	—	—	—	—
CMS 20-23	—	—	—	—	—	—	—	—	—	—
	10,752	—	—	—	10,752	6	—	—	—	6
Loans and advances to customers:										
Retail - UK Mortgages										
RMS 1-6	251,372	21,010	—	—	272,382	103	247	—	—	350
RMS 7-9	46	4,030	—	—	4,076	1	66	—	—	67
RMS 10	—	907	—	—	907	—	25	—	—	25
RMS 11-13	—	3,071	—	—	3,071	—	130	—	—	130
RMS 14	—	—	1,859	12,511	14,370	—	—	191	261	452
	251,418	29,018	1,859	12,511	294,806	104	468	191	261	1,024
Retail - credit cards										
RMS 1-6	9,619	1,284	—	—	10,903	75	57	—	—	132
RMS 7-9	1,603	1,137	—	—	2,740	66	138	—	—	204
RMS 10	274	343	—	—	617	14	70	—	—	84
RMS 11-13	—	509	—	—	509	—	193	—	—	193
RMS 14	—	—	340	—	340	—	—	153	—	153
	11,496	3,273	340	—	15,109	155	458	153	—	766
Retail - loans and overdrafts										
RMS 1-6	5,559	291	—	—	5,850	80	15	—	—	95
RMS 7-9	1,990	580	—	—	2,570	99	66	—	—	165
RMS 10	116	181	—	—	297	13	36	—	—	49
RMS 11-13	45	467	—	—	512	9	178	—	—	187
RMS 14	—	—	307	—	307	—	—	147	—	147
	7,710	1,519	307	—	9,536	201	295	147	—	643
Retail - UK Motor Finance										
RMS 1-6	12,035	1,396	—	—	13,431	187	46	—	—	233
RMS 7-9	738	456	—	—	1,194	7	33	—	—	40
RMS 10	—	171	—	—	171	—	30	—	—	30
RMS 11-13	13	193	—	—	206	—	62	—	—	62
RMS 14	—	—	199	—	199	—	—	133	—	133
	12,786	2,216	199	—	15,201	194	171	133	—	498
Retail - other										
RMS 1-6	14,952	482	—	—	15,434	19	19	—	—	38
RMS 7-9	2,418	334	—	—	2,752	11	39	—	—	50
RMS 10	—	21	—	—	21	—	1	—	—	1
RMS 11-13	509	467	—	—	976	—	40	—	—	40
RMS 14	—	—	184	—	184	—	—	59	—	59
	17,879	1,304	184	—	19,367	30	99	59	—	188
Total Retail	301,289	37,330	2,889	12,511	354,019	684	1,491	683	261	3,119

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 18: Credit quality of loans and advances to banks and customers (continued)

Gross drawn exposures and expected credit loss allowances (continued)	Drawn exposures					Expected credit loss allowance				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
At 31 December 2020										
Commercial Banking										
CMS 1-10	35,072	191	—	—	35,263	42	2	—	—	44
CMS 11-14	30,821	6,971	—	—	37,792	141	109	—	—	250
CMS 15-18	4,665	6,469	—	—	11,134	96	398	—	—	494
CMS 19	—	685	—	—	685	—	144	—	—	144
CMS 20-23	—	—	3,524	—	3,524	—	—	1,282	—	1,282
	70,558	14,316	3,524	—	88,398	279	653	1,282	—	2,214
Other										
RMS 1-6	871	13	—	—	884	9	1	—	—	10
RMS 7-9	—	—	—	—	—	—	—	—	—	—
RMS 10	—	—	—	—	—	—	—	—	—	—
RMS 11-13	—	—	—	—	—	—	—	—	—	—
RMS 14	—	—	67	—	67	—	—	17	—	17
	871	13	67	—	951	9	1	17	—	27
CMS 1-10	60,985	—	—	—	60,985	—	—	—	—	—
CMS 11-14	238	—	—	—	238	—	—	—	—	—
CMS 15-18	—	—	—	—	—	—	—	—	—	—
CMS 19	2	—	—	—	2	—	—	—	—	—
CMS 20-23	—	—	10	—	10	—	—	—	—	—
	61,225	—	10	—	61,235	—	—	—	—	—
Central overlay	—	—	—	—	—	400	—	—	—	400
Total loans and advances to customers	433,943	51,659	6,490	12,511	504,603	1,372	2,145	1,982	261	5,760
In respect of:										
Retail	301,289	37,330	2,889	12,511	354,019	684	1,491	683	261	3,119
Commercial Banking	70,558	14,316	3,524	—	88,398	279	653	1,282	—	2,214
Other[1]	62,096	13	77	—	62,186	409	1	17	—	427
Total loans and advances to customers	433,943	51,659	6,490	12,511	504,603	1,372	2,145	1,982	261	5,760

[1] Principally comprises reverse repurchase agreement balances.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 19: Dividends on ordinary shares

An interim dividend for 2021 of 0.67 pence per ordinary share will be paid on 13 September 2021. The total amount of this dividend is £473 million.

The Group did not pay any dividends during 2020 following a specific request of the regulator, the PRA, in line with all other major UK listed banks, as a result of the developing coronavirus crisis.

On 25 May 2021, a final dividend in respect of 2020 of 0.57 pence per share, totalling £404 million, the maximum allowable under PRA guidelines, was paid to shareholders.

Shareholders who have already joined the dividend reinvestment plan will automatically receive shares instead of the cash dividend. Key dates for the payment of the recommended dividend are:

Shares quoted ex-dividend	5 August 2021
Record date	6 August 2021
Final date for joining or leaving the dividend reinvestment plan	20 August 2021
Dividend paid	13 September 2021

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

Note 20: Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2021 and have not been applied in preparing these condensed consolidated half-year financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Group and reliable estimates cannot be made at this stage.

With the exception of IFRS 17 *Insurance Contracts* and certain other minor amendments, as at 28 July 2021 these pronouncements have been endorsed for use in the United Kingdom.

IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 *Insurance Contracts* and is effective for annual periods beginning on or after 1 January 2023.

IFRS 17 requires insurance contracts and participating investment contracts to be measured on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice. The risk adjustment is released to profit and loss as an insurer’s risk reduces. Profits which are currently recognised through a value in-force asset will no longer be recognised at inception of an insurance contract. Instead, the expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided. The standard will have a significant impact on the accounting for the insurance and participating investment contracts issued by the Group.

The Group's IFRS 17 project is progressing to plan. Work has focused on interpreting the requirements of the standard, developing methodologies and accounting policies, and implementing the changes required to reporting and other systems. The development of the Group's data warehousing and actuarial liability calculation processes required for IFRS 17 reporting continues to progress, with a schedule of testing and business readiness activity due to run from later this year into 2022, ahead of full implementation from 1 January 2023.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 *Financial Instruments* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*). These amendments are not expected to have a significant impact on the Group.

Note 21: Other information

The financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 (the Act). The statutory accounts for the year ended 31 December 2020 were approved by the directors on 23 February 2021 and were delivered to the Registrar of Companies on 28 April 2021. The auditors’ report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Act.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- an indication of important events that have occurred during the six months ended 30 June 2021 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2021 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the Board by

William Chalmers
Interim Group Chief Executive
28 July 2021

Lloyds Banking Group plc Board of directors:

Executive director:
William Chalmers *(Interim Group Chief Executive and Chief Financial Officer)*

Non-executive directors:
Robin Budenberg CBE *(Chair)*
Alan Dickinson *(Deputy Chair)*
Sarah Legg
Lord Lupton CBE
Amanda Mackenzie OBE
Nicholas Prettejohn
Stuart Sinclair
Catherine Woods

INDEPENDENT REVIEW REPORT TO LLOYDS BANKING GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 21. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

The annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards as adopted by the United Kingdom. Accordingly, the condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, England
28 July 2021

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'endeavour', 'prospects', 'optimistic' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. Examples of such forward looking statements include, but are not limited to, statements or guidance relating to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; potential changes in dividend policy; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality impacting the recoverability and value of balance sheet assets; concentration of financial exposure; management and monitoring of conduct risk; exposure to counterparty risk (including but not limited to third parties conducting illegal activities without the Group's knowledge); instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and the EU-UK Trade and Cooperation Agreement, instability as a result of the potential for other countries to exit the EU or the Eurozone, and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic (including but not limited to the COVID-19 pandemic) and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change, including the Group's ability along with the government and other stakeholders to manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the UK's exit from the EU; changes to regulatory capital or liquidity requirements (including regulatory measures to restrict distributions to address potential capital and liquidity stress) and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key laws, legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes in the Group's ability to develop sustainable finance products and the Group's capacity to measure the ESG impact from its financing activity, which may affect the Group's ability to achieve its climate ambition; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the SEC, Lloyds Banking Group plc annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

SUMMARY OF ALTERNATIVE PERFORMANCE MEASURES

The Group calculates a number of metrics that are used throughout the banking and insurance industries on an underlying basis. A description of these measures and their calculation is set out below.

Asset quality ratio	The underlying impairment charge for the period (on an annualised basis) in respect of loans and advances to customers after releases and write-backs, expressed as a percentage of average gross loans and advances to customers for the period
Average interest-earning banking assets	Gross loans and advances to customers adjusted to remove fee-based and other non-banking balances, averaged over the period.
Banking net interest margin	Banking net interest income on customer and product balances in the banking businesses as a percentage of average gross banking interest-earning assets for the period
Cost:income ratio	Total costs as a percentage of net income calculated on an underlying basis
Loan to deposit ratio	Loans and advances to customers net of allowance for impairment losses and excluding reverse repurchase agreements divided by customer deposits excluding repurchase agreements on an underlying basis
Present value of new business premium	The total single premium sales received in the period (on an annualised basis) plus the discounted value of premiums expected to be received over the term of the new regular premium contracts
Return on risk-weighted assets	Underlying profit before tax divided by average risk-weighted assets
Return on tangible equity	Statutory profit after tax adjusted to deduct profit attributable to non-controlling interests and other equity holders, divided by average tangible net assets
Tangible net assets per share	Net assets excluding intangible assets such as goodwill and acquisition-related intangibles divided by the weighted average number of ordinary shares in issue
Underlying profit before impairment	Underlying profit adjusted to remove the underlying impairment charge
Underlying, or 'above the line' profit	Statutory profit before tax adjusted for certain items as detailed in the Basis of Presentation

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Registered office: Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ
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