

# Lloyds Bank plc

Half-Year Management Report

For the half-year to 30 June 2015

Member of the Lloyds Banking Group

## FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of the Lloyds Bank Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Bank Group or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Lloyds Bank 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 exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to Lloyds Bank plc's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; pandemic, natural and other disasters, adverse weather and similar contingencies outside the Lloyds Banking Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Lloyds Banking Group's control; the policies, decisions and actions of governmental or regulatory authorities in the UK, the EU, the US or elsewhere including the implementation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations imposed on Lloyds Banking Group plc and the Lloyds Bank Group as a result of HM Treasury's investment in Lloyds Banking Group plc; actions or omissions by the Lloyds Bank Group's directors, management or employees including industrial action; changes to the Lloyds Bank Group's post-retirement defined benefit scheme obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Lloyds Bank Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to Lloyds Banking Group plc's latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and Lloyds Bank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

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## FINANCIAL REVIEW

### Principal activities

Lloyds Bank plc (the Bank) and its subsidiaries (together, the Group) provide a wide range of banking and financial services in the UK and overseas.

The Group's revenue is earned through interest and fees on a broad range of financial services products including current and savings accounts, personal loans, credit cards and mortgages within the retail market; loans and capital market products to commercial, corporate and asset finance customers; life, pensions and investment products; general insurance; and private banking and asset management.

### Review of results

The Group recorded a profit before tax of £1,416 million for the half-year to 30 June 2015, a decrease of £402 million, or 22 per cent, compared to the profit before tax of £1,818 million for the half-year to 30 June 2014.

On 20 March 2015 the Group announced that it had agreed to sell a 9.99 per cent interest in TSB Banking Group plc (TSB) to Banco de Sabadell S.A. (Sabadell) and that it had entered into an irrevocable undertaking to accept Sabadell's recommended cash offer in respect of its remaining 40.01 per cent interest in TSB. The sale of the 9.99 per cent interest completed on 24 March 2015, reducing the Group's holding in TSB to 40.01 per cent; this sale led to a loss of control and the deconsolidation of TSB. On 30 June 2015 the Group announced that Sabadell's offer had become unconditional in all respects and the proceeds were received on 10 July 2015. In the half-year to 30 June 2015 the Group incurred a charge of £660 million following the deconsolidation of TSB; this comprised a gain of £5 million on disposal of the 9.99 per cent interest and the revaluation of the Group's remaining 40.01 per cent interest, offset by a provision of £665 million in relation to the Group's obligations under the Transitional Service Agreement and in respect of IT provision.

Total income, net of insurance claims, increased by £364 million, or 4 per cent, to £9,020 million for the half-year to 30 June 2015 from £8,656 million in the half-year to 30 June 2014.

Net interest income increased by £138 million, or 3 per cent, to £5,215 million. This increase was despite an increase of £57 million in the charge within net interest income for amounts allocated to unit holders in Open-Ended Investment Companies, from £300 million in the half-year to 30 June 2014 to £357 million in the half-year to 30 June 2015. Excluding this charge, net interest income was £195 million, or 4 per cent, higher at £5,572 million. The net interest margin increased, reflecting the disposal of lower margin assets which were outside of the Group's risk appetite at the end of 2014 as well as the continued benefits of reduced funding and liability costs, partly offset by lower asset prices.

Other income decreased by £3,114 million, or 31 per cent, to £6,803 million, largely due to an £889 million decrease in net trading income, reflecting lower income from the insurance businesses due to the impact of market conditions on the policyholder assets within those businesses, relative to the half-year to 30 June 2014; together with a £2,078 million reduction in insurance premium income. The market-driven movements in insurance trading income, together with the movement in insurance premium income, were largely offset in the Group's income statement by a £3,340 million, or 53 per cent, decrease in the insurance claims expense, to £2,998 million, and the impact on net interest income of amounts allocated to unit holders in Open-Ended Investment Companies. Net trading income within the Group's banking operations was a profit of £888 million compared to a profit of £363 million in the half-year to 30 June 2014. Net fee and commission income was £243 million, or 20 per cent, lower at £991 million, principally as a result of the sale of Scottish Widows Investment Partnership, which completed on 31 March 2014. Insurance premium income was £2,078 million lower at £1,414 million; regular income of £3,373 million in the half-year to 30 June 2015 was partly offset by a charge of £1,959 million relating to the recapture by a third party insurer of a portfolio of policies previously reassured with the Group. This charge is offset by an equivalent credit within the insurance claims expense. Other operating income was £96 million higher at £923 million as a result of increased income from the movement in value of in-force insurance business.

**FINANCIAL REVIEW** (continued)

Total operating expenses increased by £1,246 million, or 20 per cent, to £7,443 million; although the half-year to 30 June 2015 includes a charge of £665 million relating to the disposal of TSB, there was a pension curtailment credit of £822 million in the half-year to 30 June 2014 and the half-year to 30 June 2015 includes a charge in respect of regulatory provisions of £1,835 million compared to a charge of £1,100 million in the same period in 2014. Excluding these items, costs were £976 million, or 16 per cent, lower at £4,943 million. This decrease reflects a £711 million reduction in Simplification and TSB build and dual-running costs, together with the impact of business disposals and the ongoing benefits of the Group's efficiency programmes.

The Group increased the provision for expected PPI costs by a further £1,400 million in first half of 2015. This brings the amount provided to £13,425 million, of which £2,237 million remains unutilised. The unutilised provision comprises elements to cover the Past Business Review (PBR), remediation activity and future reactive complaints including associated administration costs. The volume of reactive PPI complaints in the first half of 2015 fell by 8 per cent compared with the first half of 2014 but were marginally higher than the fourth quarter 2014 run-rate and above expectations. Reactive complaints continue to be driven by Claims Management Company (CMC) activity.

The Group also made a further charge of £435 million in respect of other conduct issues. This comprises £318 million of provisions related to potential claims and remediation in respect of legacy product sales and a fine of £117 million following the agreement reached with the Financial Conduct Authority with regard to aspects of the Group's PPI complaint handling process during the period March 2012 to May 2013.

Impairment losses decreased by £480 million, or 75 per cent, to £161 million; the improvement reflects lower levels of new impairment as a result of effective risk management, improving economic conditions and the continued low interest rate environment.

The tax charge for the half-year to 30 June 2015 was £330 million (half-year to 30 June 2014: £384 million), representing an effective tax rate of 23.3 per cent; this compares to an effective tax rate of 21.1 per cent in the first half of 2014, which reflected tax exempt gains on the sales of businesses, including Scottish Widows Investment Partnership.

On the balance sheet, total assets were £31,764 million, or 4 per cent, lower at £834,684 million at 30 June 2015, compared to £866,448 million at 31 December 2014. Loans and advances to customers decreased by £30,277 million, or 6 per cent, to £452,427 million, principally reflecting the deconsolidation of TSB which led to a decrease of £21,643 million. Customer deposits decreased by £30,472 million, to £416,595 million, principally reflecting the deconsolidation of TSB which led to a decrease of £24,625 million. Shareholders' equity decreased by £724 million, or 1 per cent, from £48,777 million at 31 December 2014 to £48,053 million at 30 June 2015 as the retained profit for the period of £1,035 million was more than offset by the impact of the dividend paid to shareholders of £540 million together with a negative post-retirement defined benefit scheme remeasurement and other reserve movements. Non-controlling interests were £783 million or 65 per cent, lower at £430 million, as a result of the deconsolidation of TSB.

The Group's common equity tier 1 capital ratio increased to 15.9 per cent at the end of June 2015, after allowing for the interim dividend, from 15.1 per cent at the end of December 2014, driven predominantly by a reduction in risk-weighted assets.

**FINANCIAL REVIEW** (continued)**Capital ratios**

	At <b>30 June</b> 2015 £m	At 31 Dec 2014 £m
<b>Capital resources</b>		
<b>Common equity tier 1</b>		
Shareholders' equity per balance sheet	48,053	48,777
Adjustment to retained earnings for foreseeable dividends	(540)	(540)
Deconsolidation of insurance entities	(1,262)	(824)
Adjustment for own credit	115	158
Cash flow hedging reserve	(627)	(1,357)
Other adjustments	248	364
	<b>45,987</b>	46,578
<b>Less: deductions from common equity tier 1</b>		
Goodwill and other intangible assets	(1,779)	(1,875)
Excess of expected losses over impairment provisions and value adjustments	(394)	(565)
Removal of defined benefit pension surplus	(718)	(909)
Securitisation deductions	(211)	(211)
Significant investments	(2,014)	(2,021)
Deferred tax assets	(4,551)	(4,533)
<b>Common equity tier 1 capital</b>	<b>36,320</b>	36,464
<b>Additional tier 1</b>		
Additional tier 1 instruments	4,761	5,442
<b>Less: deductions from tier 1</b>		
Significant investments	(1,180)	(859)
<b>Total tier 1 capital</b>	<b>39,901</b>	41,047
<b>Tier 2</b>		
Tier 2 instruments	13,979	16,156
Eligible provisions	475	333
<b>Less: deductions from tier 2</b>		
Significant investments	(1,760)	(1,288)
<b>Total tier 2 capital</b>	<b>12,694</b>	15,201
<b>Total capital resources</b>	<b>52,595</b>	56,248
Risk-weighted assets	228,381	241,046
Common equity tier 1 capital ratio	15.9%	15.1%
Tier 1 capital ratio	17.5%	17.0%
Total capital ratio	23.0%	23.3%

## PRINCIPAL RISKS AND UNCERTAINTIES

The most significant risks faced by the Group which could impact the success of delivering against the Group's long-term strategic objectives and through which global macro-economic and regulatory developments and market liquidity dynamics could manifest, are detailed below. Except where noted, there has been no significant change to the description of these risks or key mitigating actions disclosed in the Group's 2014 Annual Report and Accounts, with any quantitative disclosures updated herein.

**Credit risk** – Adverse changes in the economic and market environment or the credit quality of our counterparties and customers could reduce asset values; potentially increase write-downs and allowances for impairment losses thereby adversely impacting profitability. Refer to 2014 Annual Report and Accounts for mitigating actions and further details.

**Conduct risk** – We face significant potential conduct risk, including selling products which do not meet customer needs; failing to deal with complaints effectively and exhibiting behaviours which do not meet market or regulatory standards. Refer to 2014 Annual Report and Accounts for mitigating actions and further details.

**Market risk** – Key market risks include interest rate and credit spread in the Banking business, credit spread and equity in the Insurance business and the defined benefit pension schemes where asset and liability movements impact on our capital position. Refer to 2014 Annual Report and Accounts for mitigating actions and further details. In addition, a hedge has been implemented to provide protection from Insurance equity volatility.

**Operational risk** – Significant operational risks which may result in financial loss, disruption or damage to the reputation of Lloyds Banking Group, including the availability, resilience and security of our core IT systems and the potential for failings in our customer processes. Refer to 2014 Annual Report and Accounts for mitigating actions and further details.

**Capital risk** – Future capital position is potentially at risk from a worsening macroeconomic environment, which could lead to adverse financial performance and deplete capital resources and/or increase capital requirements. Refer to 2014 Annual Report and Accounts for mitigating actions and further details.

**Funding and liquidity risk** – Our funding and liquidity position is supported by a significant and stable customer deposit base. A deterioration in either our or the UK's credit rating, or a sudden and significant withdrawal of customer deposits could adversely impact Lloyds Banking Group's funding and liquidity position. Refer to 2014 Annual Report and Accounts for mitigating actions and further details. In addition, Lloyds Banking Group has a contingency funding plan providing management actions and strategies available in stressed conditions.

**PRINCIPAL RISKS AND UNCERTAINTIES** (continued)

**Legal and regulatory risk** – The Group and its businesses are subject to ongoing regulation, associated legal and regulatory risks, and legal and regulatory actions. They are also subject to the effects of changes in the laws, regulations, policies, voluntary codes of practice (as well as in their respective interpretations) and court rulings in the UK, the European Union and the other markets in which the Group operates. These laws and regulations include (i) increased regulatory oversight, particularly in respect of conduct issues; (ii) prudential regulatory developments; and (iii) industry-wide initiatives. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements.

*Mitigating actions*

- The Legal, Regulatory and Mandatory Change Committee ensure we drive forward activity to develop plans for ensuring delivery of all legal and regulatory changes and track their progress against those plans.
- Continued investment in our people, processes, training and IT systems is assisting us in meeting our legal and regulatory commitments.
- Engagement with the regulatory authorities on forthcoming regulatory changes, market reviews and CMA investigations.
- Defined and embedded conduct risk strategy.

**Governance risk** – Against a background of increased regulatory focus on governance and risk management the most significant challenges arise from the Senior Managers and Certification Regime (SMR) which comes into operation in March 2016 and the requirement to Ring Fence core UK financial services and activities from January 2019.

*Mitigating actions*

- The Group's response to SMR is managed through a programme with workstreams addressing the implementation of each of the major components.
- A programme is in place to address the requirements of ring fencing and the Group is in close and regular contact with regulators to develop the plans for our anticipated operating and legal structures.
- Our aim is to ensure that evolving risk and governance arrangements continue to reflect the balance of business in the Group while adhering to regulatory objectives.

**People risk** – Key people risks include the risk that the Group may fail to attract and retain talent in an increasingly competitive marketplace, particularly in the light of the introduction of the Senior Managers and Certification Regime in 2016 which introduces a reverse burden of proof and increased accountability.

*Mitigating actions*

- Focused actions on delivery of strategies to attract, retain and develop high calibre people.
- Maintain compliance with legal and regulatory requirements relating to Senior Managers and Certification Regime, embedding compliant and appropriate colleague behaviours.
- Continue focus on the Group's culture, delivering initiatives which reinforce behaviours to generate the best long-term outcomes for customers and colleagues.

## CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

## CONSOLIDATED INCOME STATEMENT

	Note	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million
Interest and similar income		9,050	9,827
Interest and similar expense		(3,835)	(4,750)
<b>Net interest income</b>		<b>5,215</b>	<b>5,077</b>
Fee and commission income		1,598	1,843
Fee and commission expense		(607)	(609)
Net fee and commission income		991	1,234
Net trading income		3,475	4,364
Insurance premium income		1,414	3,492
Other operating income		923	827
<b>Other income</b>		<b>6,803</b>	<b>9,917</b>
<b>Total income</b>		<b>12,018</b>	<b>14,994</b>
Insurance claims		(2,998)	(6,338)
<b>Total income, net of insurance claims</b>		<b>9,020</b>	<b>8,656</b>
Regulatory provisions	10	(1,835)	(1,100)
Other operating expenses		(5,608)	(5,097)
Total operating expenses	3	(7,443)	(6,197)
<b>Trading surplus</b>		<b>1,577</b>	<b>2,459</b>
Impairment	4	(161)	(641)
<b>Profit before tax</b>		<b>1,416</b>	<b>1,818</b>
Taxation	5	(330)	(384)
<b>Profit for the period</b>		<b>1,086</b>	<b>1,434</b>
Profit attributable to non-controlling interests		51	34
Profit attributable to equity shareholders		1,035	1,400
<b>Profit for the period</b>		<b>1,086</b>	<b>1,434</b>

**CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)** (continued)**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Half-year to 30 June 2015 £ million</b>	Half-year to 30 June 2014 £ million
<b>Profit for the period</b>	<b>1,086</b>	1,434
<b>Other comprehensive income:</b>		
<b>Items that will not subsequently be reclassified to profit or loss:</b>		
Post-retirement defined benefit scheme remeasurements (note 9):		
Remeasurements before taxation	<b>(302)</b>	(599)
Taxation	<b>60</b>	120
	<b>(242)</b>	(479)
<b>Items that may subsequently be reclassified to profit or loss:</b>		
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Change in fair value	<b>(16)</b>	557
Income statement transfers in respect of disposals	<b>(49)</b>	(85)
Income statement transfers in respect of impairment	<b>-</b>	2
Taxation	<b>-</b>	(50)
	<b>(65)</b>	424
Movement in cash flow hedging reserve:		
Effective portion of changes in fair value	<b>(403)</b>	1,008
Net income statement transfers	<b>(508)</b>	(578)
Taxation	<b>181</b>	(84)
	<b>(730)</b>	346
Currency translation differences (tax: nil)	<b>27</b>	(1)
<b>Other comprehensive income for the period, net of tax</b>	<b>(1,010)</b>	290
<b>Total comprehensive income for the period</b>	<b>76</b>	1,724
Total comprehensive income attributable to non-controlling interests	<b>51</b>	34
Total comprehensive income attributable to equity shareholders	<b>25</b>	1,690
<b>Total comprehensive income for the period</b>	<b>76</b>	1,724

**CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)** (continued)**CONSOLIDATED BALANCE SHEET**

	Note	At 30 June 2015 £ million	At 31 Dec 2014 £ million
<b>Assets</b>			
Cash and balances at central banks		<b>67,687</b>	50,492
Items in course of collection from banks		<b>1,159</b>	1,173
Trading and other financial assets at fair value through profit or loss	6	<b>148,455</b>	152,520
Derivative financial instruments		<b>27,725</b>	35,483
Loans and receivables:			
Loans and advances to banks		<b>23,548</b>	26,155
Loans and advances to customers	7	<b>452,427</b>	482,704
Debt securities		<b>1,569</b>	1,213
Due from fellow Lloyds Banking Group undertakings		<b>11,599</b>	11,482
		<b>489,143</b>	521,554
Available-for-sale financial assets		<b>32,173</b>	56,493
Held-to-maturity investments		<b>19,960</b>	-
Investment properties		<b>4,702</b>	4,492
Goodwill		<b>2,016</b>	2,016
Value of in-force business		<b>4,863</b>	4,864
Other intangible assets		<b>1,942</b>	2,070
Tangible fixed assets		<b>8,154</b>	8,052
Current tax recoverable		<b>154</b>	157
Deferred tax assets		<b>4,036</b>	4,190
Retirement benefit assets	9	<b>908</b>	1,147
Other assets		<b>21,607</b>	21,745
<b>Total assets</b>		<b>834,684</b>	866,448

**CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)** (continued)**CONSOLIDATED BALANCE SHEET** (continued)

	Note	At 30 June 2015 £ million	At 31 Dec 2014 £ million
<b>Equity and liabilities</b>			
<b>Liabilities</b>			
Deposits from banks		16,966	10,887
Customer deposits		416,595	447,067
Due to fellow Lloyds Banking Group undertakings		5,352	5,288
Items in course of transmission to banks		790	979
Trading and other financial liabilities at fair value through profit or loss		63,328	62,102
Derivative financial instruments		27,856	33,293
Notes in circulation		1,090	1,129
Debt securities in issue	8	77,219	75,672
Liabilities arising from insurance contracts and participating investment contracts		81,209	86,941
Liabilities arising from non-participating investment contracts		26,131	27,248
Unallocated surplus within insurance businesses		290	320
Other liabilities		35,818	28,783
Retirement benefit obligations	9	467	453
Current tax liabilities		24	69
Deferred tax liabilities		40	54
Other provisions		4,443	4,200
Subordinated liabilities		28,583	31,973
<b>Total liabilities</b>		<b>786,201</b>	<b>816,458</b>
<b>Equity</b>			
Share capital		1,574	1,574
Share premium account		35,533	35,533
Other reserves		6,074	6,842
Retained profits		4,872	4,828
<b>Shareholders' equity</b>		<b>48,053</b>	<b>48,777</b>
Non-controlling interests		430	1,213
<b>Total equity</b>		<b>48,483</b>	<b>49,990</b>
<b>Total equity and liabilities</b>		<b>834,684</b>	<b>866,448</b>

## CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders			Total £ million	Non- controlling interests £ million	Total £ million
	Share capital and premium £ million	Other reserves £ million	Retained profits £ million			
Balance at 1 January 2015	37,107	6,842	4,828	48,777	1,213	49,990
<b>Comprehensive income</b>						
Profit for the period	–	–	1,035	1,035	51	1,086
<i>Other comprehensive income</i>						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(242)	(242)	–	(242)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(65)	–	(65)	–	(65)
Movements in cash flow hedging reserve, net of tax	–	(730)	–	(730)	–	(730)
Currency translation differences (tax: nil)	–	27	–	27	–	27
<b>Total other comprehensive income</b>	–	(768)	(242)	(1,010)	–	(1,010)
<b>Total comprehensive income</b>	–	(768)	793	25	51	76
<b>Transactions with owners</b>						
Dividends	–	–	(540)	(540)	(10)	(550)
Capital contributions received	–	–	221	221	–	221
Return of capital contributions	–	–	(431)	(431)	–	(431)
Value of employee services	–	–	1	1	–	1
A divestment on sale of TSB Banking Group plc (TSB) (note 14)	–	–	–	–	(825)	(825)
Other changes in non-controlling interests	–	–	–	–	1	1
<b>Total transactions with owners</b>	–	–	(749)	(749)	(834)	(1,583)
<b>Balance at 30 June 2015</b>	<b>37,107</b>	<b>6,074</b>	<b>4,872</b>	<b>48,053</b>	<b>430</b>	<b>48,483</b>

**CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)** (continued)**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** (continued)

	Attributable to equity shareholders				Non-controlling interests £ million	Total £ million
	Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million		
Balance at 1 January 2014	37,107	4,123	2,509	43,739	347	44,086
Comprehensive income						
Profit for the period	–	–	1,400	1,400	34	1,434
<i>Other comprehensive income</i>						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(479)	(479)	–	(479)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	424	–	424	–	424
Movements in cash flow hedging reserve, net of tax	–	346	–	346	–	346
Currency translation differences (tax: nil)	–	(1)	–	(1)	–	(1)
Total other comprehensive income	–	769	(479)	290	–	290
Total comprehensive income	–	769	921	1,690	34	1,724
Transactions with owners						
Dividends	–	–	–	–	(8)	(8)
Capital contributions received	–	–	153	153	–	153
Return of capital contributions	–	–	(124)	(124)	–	(124)
Adjustment on sale of non-controlling interest in TSB (note 14)	–	–	(135)	(135)	565	430
Other changes in non-controlling interests	–	–	–	–	10	10
Total transactions with owners	–	–	(106)	(106)	567	461
Balance at 30 June 2014	37,107	4,892	3,324	45,323	948	46,271

**CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)** (continued)**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** (continued)

	Attributable to equity shareholders				Non-controlling interests £ million	Total £ million
	Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million		
Balance at 1 July 2014	37,107	4,892	3,324	45,323	948	46,271
Comprehensive income						
Profit for the period	–	–	380	380	53	433
<i>Other comprehensive income</i>						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	1,018	1,018	–	1,018
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	113	–	113	–	113
Movements in cash flow hedging reserve, net of tax	–	1,838	–	1,838	–	1,838
Currency translation differences, net of tax	–	(1)	–	(1)	–	(1)
Total other comprehensive income	–	1,950	1,018	2,968	–	2,968
Total comprehensive income	–	1,950	1,398	3,348	53	3,401
Transactions with owners						
Dividends	–	–	–	–	(19)	(19)
Value of employee services	–	–	2	2	–	2
Capital contribution received	–	–	214	214	–	214
Return of capital contributions	–	–	(74)	(74)	–	(74)
Adjustment on sale of non-controlling interest in TSB (note 14)	–	–	(36)	(36)	240	204
Other changes in non-controlling interests	–	–	–	–	(9)	(9)
Total transactions with owners	–	–	106	106	212	318
Balance as at 31 December 2014	37,107	6,842	4,828	48,777	1,213	49,990

**CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)** (continued)**CONSOLIDATED CASH FLOW STATEMENT**

	<b>Half-year to 30 June 2015 £ million</b>	Half-year to 30 June 2014 £ million
<b>Profit before tax</b>	<b>1,416</b>	1,818
Adjustments for:		
Change in operating assets	<b>26,094</b>	2,163
Change in operating liabilities	<b>10</b>	2,935
Non-cash and other items	<b>(5,656)</b>	567
Tax received	<b>(30)</b>	10
<b>Net cash provided by (used in) operating activities</b>	<b>21,834</b>	7,493
<b>Cash flows from investing activities</b>		
Purchase of financial assets	<b>(12,358)</b>	(7,363)
Proceeds from sale and maturity of financial assets	<b>14,838</b>	1,685
Purchase of fixed assets	<b>(1,564)</b>	(1,651)
Proceeds from sale of fixed assets	<b>526</b>	725
Acquisition of businesses, net of cash acquired	<b>-</b>	(1)
Disposal of businesses, net of cash disposed	<b>(4,282)</b>	536
<b>Net cash used in investing activities</b>	<b>(2,840)</b>	(6,069)
<b>Cash flows from financing activities</b>		
Dividends paid to equity shareholders	<b>(540)</b>	-
Dividends paid to non-controlling interests	<b>(10)</b>	(8)
Return of capital contribution	<b>(431)</b>	(124)
Interest paid on subordinated liabilities	<b>(1,525)</b>	(1,311)
Proceeds from issue of subordinated liabilities	<b>-</b>	-
Repayment of subordinated liabilities	<b>(2,068)</b>	(1,182)
Change in non-controlling interests	<b>1</b>	10
Sale of non-controlling interest in TSB	<b>-</b>	430
<b>Net cash used in financing activities</b>	<b>(4,573)</b>	(2,185)
Effects of exchange rate changes on cash and cash equivalents	<b>(2)</b>	4
Change in cash and cash equivalents	<b>14,419</b>	(757)
Cash and cash equivalents at beginning of period	<b>65,147</b>	66,797
<b>Cash and cash equivalents at end of period</b>	<b>79,566</b>	66,040

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

**NOTES**

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## 1. Accounting policies, presentation and estimates

These condensed consolidated half-year financial statements as at and for the period to 30 June 2015 have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), *Interim Financial Reporting* as adopted by the European Union and comprise the results of Lloyds Bank plc (the Bank) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2014 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Copies of the 2014 Annual Report and Accounts are available on the Lloyds Banking Group's website and are available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position and have had regard to the factors set out in Principal risks and uncertainties: Funding and liquidity on page 4.

The accounting policies are consistent with those applied by the Group in its 2014 Annual Report and Accounts.

During the half-year to 30 June 2015, government debt securities with a carrying value of £19,938 million, previously classified as available-for-sale, were reclassified to held-to-maturity. Unrealised gains on the transferred securities of £194 million previously taken to equity continue to be held in the available-for-sale revaluation reserve and will be amortised to the income statement over the remaining lives of the securities using the effective interest method or until the assets become impaired.

### ***Future accounting developments***

Details of those IFRS pronouncements which will be relevant to the Group but which will not be effective at 31 December 2015 and which have not been applied in preparing these condensed consolidated half-year financial statements are set out in note 17.

### ***Critical accounting estimates and judgements***

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There have been no significant changes in the basis upon which estimates have been determined, compared to that applied at 31 December 2014.

## 2. Segmental analysis

The Group provides a wide range of banking and financial services in the UK and in certain locations overseas. The Group Executive Committee (GEC) of the Lloyds Banking Group has been determined to be the chief operating decision maker for the Group. Following the transfer of HBOS to the Group on 1 January 2010, all of the trading activities of the Lloyds Banking Group are carried out within the Group and, as a result, the chief operating decision maker reviews the Group's performance by considering that of the Lloyds Banking Group.

The segmental results and comparatives are presented on an underlying basis, the basis reviewed by the chief operating decision maker. The effects of asset sales, volatile items, the insurance grossing adjustment, liability management, Simplification costs, TSB build and dual-running costs, the charge relating to the TSB disposal, regulatory provisions, certain past service pension credits or charges, the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments are excluded in arriving at underlying profit.

## 2. Segmental analysis (continued)

Following the announcement of the sale of TSB to Banco Sabadell, the Group no longer considers TSB to be a separate financial reporting segment and as a consequence its results are included in Other. The Group's activities are organised into four financial reporting segments: Retail; Commercial Banking; Consumer Finance and Insurance. 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 2014.

There has been no change to the Group's segmental accounting for internal segment services or derivatives entered into by units for risk management purposes since 31 December 2014.

Half-year to 30 June 2015	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims £m	Profit (loss) before tax £m	External revenue £m	Inter-segment revenue £m
Underlying basis						
Retail	3,743	559	4,302	1,839	4,629	(327)
Commercial Banking	1,234	1,023	2,257	1,193	1,842	415
Consumer Finance	658	677	1,335	539	1,462	(127)
Insurance	(73)	1,025	952	584	1,241	(289)
Other	345	–	345	228	17	328
Group	<u>5,907</u>	<u>3,284</u>	<u>9,191</u>	<u>4,383</u>	<u>9,191</u>	<u>–</u>
Reconciling items:						
Insurance grossing adjustment	(241)	287	46	–		
Asset sales, volatile items and liability management <sup>1</sup>	26	(384)	(358)	(355)		
Volatility relating to the insurance business	–	18	18	18		
Simplification costs	–	–	–	(32)		
TSB build and dual running costs	–	–	–	(85)		
Charge relating to the TSB disposal	–	5	5	(660)		
Payment protection insurance provision	–	–	–	(1,400)		
Other conduct provisions	–	–	–	(435)		
Amortisation of purchased intangibles	–	–	–	(164)		
Fair value unwind	(200)	105	(95)	(77)		
Removal of impact of other entities in the Lloyds Banking Group <sup>2</sup>	<u>(277)</u>	<u>490</u>	<u>213</u>	<u>223</u>		
Group – statutory	<u>5,215</u>	<u>3,805</u>	<u>9,020</u>	<u>1,416</u>		

<sup>1</sup> Comprises (i) losses on disposals of assets which are not part of normal business operations (£52 million); (ii) the net effect of banking volatility, changes in the fair value of the equity conversion feature of the Lloyds Banking Group's Enhanced Capital Notes and net derivative valuation adjustments (losses of £297 million); and (iii) the results of liability management exercises (losses of £6 million).

<sup>2</sup> This reflects the inclusion in the results reviewed by the chief operating decision maker of the Bank's fellow subsidiary undertakings and its parent undertaking, Lloyds Banking Group plc.

**2. Segmental analysis (continued)**

Half-year to 30 June 2014	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims £m	Profit (loss) before tax £m	External revenue £m	Inter- segment revenue £m
Underlying basis						
Retail	3,493	700	4,193	1,710	4,497	(304)
Commercial Banking	1,234	984	2,218	1,156	1,785	433
Consumer Finance	645	675	1,320	534	1,377	(57)
Insurance	(64)	854	790	461	859	(69)
Other	496	235	731	(42)	734	(3)
Group	5,804	3,448	9,252	3,819	9,252	–
Reconciling items:						
Insurance grossing adjustment	(239)	314	75	–		
Asset sales, volatile items and liability management <sup>1</sup>	10	(1,135)	(1,125)	(1,130)		
Volatility relating to the insurance business	–	(122)	(122)	(122)		
Simplification costs	–	–	–	(519)		
TSB build and dual running costs	–	–	–	(309)		
Payment protection insurance provision	–	–	–	(600)		
Other conduct provisions	–	–	–	(500)		
Past service credit <sup>2</sup>	–	–	–	710		
Amortisation of purchased intangibles	–	–	–	(171)		
Fair value unwind	(313)	(71)	(384)	(315)		
Removal of impact of other entities in the Lloyds Banking Group <sup>3</sup>	(185)	1,145	960	955		
Group – statutory	5,077	3,579	8,656	1,818		

<sup>1</sup> Comprises (i) gains on disposals of assets which are not part of normal business operations (£94 million); (ii) the net effect of banking volatility, changes in the fair value of the equity conversion feature of the Lloyds Banking Group's Enhanced Capital Notes and net derivative valuation adjustments (gain of £152 million); and (iii) the results of liability management exercises (losses of £1,376 million).

<sup>2</sup> This represents the curtailment credit of £843 million following the Group's decision to reduce the cap on pensionable pay (see note 3) partly offset by the cost of other changes to the pay, benefits and reward offered to employees.

<sup>3</sup> This reflects the inclusion in the results reviewed by the chief operating decision maker of the Bank's fellow subsidiary undertakings and its parent undertaking, Lloyds Banking Group plc.

## 2. Segmental analysis (continued)

	At 30 June 2015 £m	At 31 Dec 2014 £m
<b>Segment external assets</b>		
Retail	315,088	317,246
Commercial Banking	179,530	241,754
Consumer Finance	26,514	25,646
Insurance	150,899	150,615
Other	150,801	119,635
<b>Total Group</b>	<u>822,832</u>	<u>854,896</u>
Lloyds Bank Group statutory	834,684	866,448
Impact of other entities in the Lloyds Banking Group	<u>(11,852)</u>	<u>(11,552)</u>
<b>Segment external assets as above</b>	<u>822,832</u>	<u>854,896</u>
<b>Segment customer deposits</b>		
Retail	278,231	285,539
Commercial Banking	125,407	119,882
Consumer Finance	11,423	14,955
Other	1,534	26,691
<b>Total Group and Lloyds Bank Group statutory</b>	<u>416,595</u>	<u>447,067</u>
<b>Segment external liabilities</b>		
Retail	286,376	295,880
Commercial Banking	232,024	231,400
Consumer Finance	16,502	18,581
Insurance	144,915	144,921
Other	94,974	114,211
<b>Total Group</b>	<u>774,791</u>	<u>804,993</u>
Lloyds Bank Group statutory	786,201	816,458
Impact of other entities in the Lloyds Banking Group	<u>(11,410)</u>	<u>(11,465)</u>
<b>Segment external liabilities as above</b>	<u>774,791</u>	<u>804,993</u>

### 3. Operating expenses

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m
Administrative expenses:		
Staff costs excluding pension curtailments and past service credits	2,410	2,879
Past service credit <sup>1</sup>	–	(822)
Total staff costs	<u>2,410</u>	<u>2,057</u>
Premises and equipment	360	444
Other expenses	<u>1,830</u>	<u>1,647</u>
	<u>4,600</u>	<u>4,148</u>
Depreciation and amortisation	<u>1,008</u>	<u>949</u>
<b>Total operating expenses, excluding regulatory provisions</b>	<b>5,608</b>	<b>5,097</b>
Regulatory provisions:		
Payment protection insurance provision (note 10)	1,400	600
Other regulatory provisions (note 10)	435	500
	<u>1,835</u>	<u>1,100</u>
<b>Total operating expenses</b>	<b><u>7,443</u></b>	<b><u>6,197</u></b>

<sup>1</sup> On 11 March 2014 the Group announced a change to its defined benefit pension schemes, revising the existing cap on the increases in pensionable pay used in calculating the pension benefit, from 2 per cent to nil with effect from 2 April 2014. The effect of this change was to reduce the Group's retirement benefit obligations recognised on the balance sheet by £843 million with a corresponding curtailment gain recognised in the income statement in the half-year to 30 June 2014, partly offset by a charge of £21 million following a change to pension arrangements for staff within the TSB business.

### 4. Impairment

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m
Impairment losses on loans and receivables:		
Loans and advances to customers	181	639
Debt securities classified as loans and receivables	(2)	–
<b>Impairment losses on loans and receivables</b>	<b>179</b>	<b>639</b>
Other credit risk provisions	<u>(18)</u>	<u>2</u>
<b>Total impairment charged to the income statement</b>	<b><u>161</u></b>	<b><u>641</u></b>

## 5. Taxation

A reconciliation of the tax (charge) credit that would result from applying the standard UK corporation tax rate to the profit (loss) before tax to the actual tax (charge) credit is given below:

	<b>Half-year to 30 June 2015 £m</b>	Half-year to 30 June 2014 £m
Profit before tax	<u>1,416</u>	<u>1,818</u>
Tax charge thereon at UK corporation tax rate of 20.25 per cent (2014: 21.5 per cent)	<b>(287)</b>	(391)
Factors affecting tax (charge) credit:		
UK corporation tax rate change	<b>7</b>	-
Disallowed items	<b>(86)</b>	(108)
Non-taxable items	<b>49</b>	43
Overseas tax rate differences	<b>(8)</b>	(17)
Gains exempted or covered by capital losses	<b>47</b>	147
Policyholder tax	<b>(39)</b>	(23)
Adjustments in respect of previous periods	<b>(14)</b>	(22)
Effect of results in joint ventures and associates	<b>-</b>	(3)
Other items	<b>1</b>	(10)
<b>Tax charge</b>	<u><b>(330)</b></u>	<u>(384)</u>

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2015 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.

On 8 July 2015, the Government announced that the corporation tax rate applicable from 1 April 2017 would be 19 per cent and from 1 April 2020 would be 18 per cent. In addition, the Government announced that from 1 January 2016 banking profits will be subject to an additional tax surcharge of 8 per cent. The proposed reductions in the rate of corporation tax and the introduction of the banking surcharge are expected to be enacted, and the impact accounted for, in the second half of 2015.

## 6. Trading and other financial assets at fair value through profit or loss

	<b>At 30 June 2015 £m</b>	At 31 Dec 2014 £m
Trading assets	<b>43,429</b>	48,504
Other financial assets at fair value through profit or loss:		
Treasury and other bills	<b>22</b>	22
Debt securities	<b>40,520</b>	41,840
Equity shares	<b>64,484</b>	62,154
	<u><b>105,026</b></u>	<u>104,016</u>
<b>Total trading and other financial assets at fair value through profit or loss</b>	<u><b>148,455</b></u>	<u>152,520</u>

Included in the above is £95,798 million (31 December 2014: £94,857 million) of assets relating to the insurance businesses.

**7. Loans and advances to customers**

	At 30 June 2015 £m	At 31 Dec 2014 £m
Agriculture, forestry and fishing	7,092	6,586
Energy and water supply	3,690	3,853
Manufacturing	6,400	6,000
Construction	5,303	6,425
Transport, distribution and hotels	14,283	15,112
Postal and communications	3,037	2,624
Property companies	36,253	36,682
Financial, business and other services	38,729	44,979
Personal:		
Mortgages	311,031	333,318
Other	20,603	23,123
Lease financing	2,797	3,013
Hire purchase	8,559	7,403
	<u>457,777</u>	<u>489,118</u>
Allowance for impairment losses on loans and advances	<u>(5,350)</u>	<u>(6,414)</u>
<b>Total loans and advances to customers</b>	<u><b>452,427</b></u>	<u><b>482,704</b></u>

Loans and advances to customers include advances securitised under the Group's securitisation and covered bond programmes.

**8. Debt securities in issue**

	At 30 June 2015 £m	At 31 Dec 2014 £m
Medium-term notes issued	25,705	22,167
Covered bonds	25,500	27,191
Certificates of deposit	9,313	7,033
Securitisation notes	10,842	11,908
Commercial paper	5,859	7,373
<b>Total debt securities in issue</b>	<u><b>77,219</b></u>	<u><b>75,672</b></u>

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 2015, external parties held £10,842 million (31 December 2014: £11,908 million) and the Group's subsidiaries held £27,707 million (31 December 2014: £38,149 million) of total securitisation notes in issue of £38,549 million (31 December 2014: £50,057 million). The notes are secured on loans and advances to customers and debt securities classified as loans and receivables amounting to £62,853 million (31 December 2014: £75,970 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.

**8. Debt securities in issue** (continued)*Covered bond programmes*

At 30 June 2015, external parties held £25,500 million (31 December 2014: £27,191 million) and the Group's subsidiaries held £4,970 million (31 December 2014: £6,339 million) of total covered bonds in issue of £30,470 million (31 December 2014: £33,530 million). The bonds are secured on certain loans and advances to customers that have been assigned to bankruptcy remote limited liability partnerships. These loans are retained on the Group's balance sheet.

Cash deposits of £9,210 million (31 December 2014: £11,251 million) held by the Group are restricted in use to repayment of the debt securities issued by the structured entities, the term advances relating to covered bonds and other legal obligations.

**9. Post-retirement defined benefit schemes**

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

	At 30 June 2015 £m	At 31 Dec 2014 £m
Defined benefit pension schemes:		
Fair value of scheme assets	38,041	38,133
Present value of funded obligations	<u>(37,399)</u>	<u>(37,243)</u>
Net pension scheme asset	642	890
Other post-retirement schemes	<u>(201)</u>	<u>(196)</u>
<b>Net retirement benefit asset</b>	<u>441</u>	<u>694</u>
Recognised on the balance sheet as:		
Retirement benefit assets	908	1,147
Retirement benefit obligations	<u>(467)</u>	<u>(453)</u>
<b>Net retirement benefit asset</b>	<u>441</u>	<u>694</u>

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

	£m
At 1 January 2015	694
Income statement charge	(154)
Employer contributions	203
Remeasurement	<u>(302)</u>
<b>At 30 June 2015</b>	<u>441</u>

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

	At 30 June 2015 %	At 31 Dec 2014 %
Discount rate	3.80	3.67
Rate of inflation:		
Retail Prices Index	3.14	2.95
Consumer Price Index	2.14	1.95
Rate of salary increases	0.00	0.00
Weighted-average rate of increase for pensions in payment	2.69	2.59

## 9. Post-retirement defined benefit schemes (continued)

The application of the revised assumptions as at 30 June 2015 to the Group's principal post-retirement defined benefit schemes has resulted in a remeasurement loss of £302 million which has been recognised in other comprehensive income, net of deferred tax of £60 million.

## 10. Provisions for liabilities and charges

### *Payment protection insurance*

The Group made provisions totalling £12,025 million to 31 December 2014 against the costs of paying redress to customers in respect of past sales of PPI policies, including the related administrative expenses.

The Group has increased the provision by a further £1,400 million which brings the total amount provided to £13,425 million, of which, at 30 June 2015, £2,237 million remained unutilised (17 per cent of total provision). The remaining provision covers the Past Business Review (PBR), remediation activity and future customer initiated complaints including associated administration expenses.

The main drivers of the provision are as follows:

### **Proactive mailing resulting from Past Business Reviews (PBR)**

The Group has mailed 98 per cent of the total PBR scope, with the remaining mailings scheduled for completion in the second half of 2015. The Group is confident that the scope of proactive mailing is final, albeit monitoring continues, and there has consequently been no change to the amount provided.

### **Remediation**

The Group continues to progress the re-review of previously handled cases. Approximately 1.2 million cases were included within the scope of remediation at 31 December 2014 covering both previously defended and previously redressed complaints for re-review. The Group has completed the review of approximately 96 per cent of all complaints previously defended, which were prioritised given their complexity and the level of potential redress required, with some residual payments expected in the second half of 2015. During the half-year, the scope was extended by 0.2 million to 1.4 million cases. The remaining scope is expected to be substantially complete by the end of the year. The change in scope, together with higher overturn rates and average redress, has resulted in an additional provision of approximately £400 million.

### **Volumes of reactive complaints (after excluding complaints from customers where no PPI policy was held)**

At 31 December 2014, the provision assumed a total of 3.6 million complaints would be received. During the first half of 2015 complaint volumes were 8 per cent lower than over the same period of 2014 and 2 per cent lower than the second half of 2014. The run rate of complaints in the first half of 2015 was, however, marginally higher than the fourth quarter 2014 run-rate and above expectations. Complaint volumes continue to be largely driven by Claims Management Company (CMC) activity. As a result, the Group has increased the total expected complaint volumes to 3.9 million with approximately 0.7 million still to be received. Coupled with higher than expected average redress and the additional associated administration costs, this has resulted in a further provision of approximately £1,000 million.

**10. Provisions for liabilities and charges** (continued)

Quarter	Average monthly reactive complaint volume	Quarter on quarter %
Q1 2013	61,259	(28%)
Q2 2013	54,086	(12%)
Q3 2013	49,555	(8%)
Q4 2013	37,457	(24%)
Q1 2014	42,259	13%
Q2 2014	39,426	(7%)
Q3 2014	40,624	3%
Q4 2014	35,910	(12%)
Q1 2015	37,791	5%
Q2 2015	36,957	(2%)

During the second quarter of 2015 the Group has seen a fall of approximately 2 per cent in complaint levels. However, the provision remains sensitive to future trends.

**Average redress**

Average redress has trended higher than expected by approximately £200 per policy due to a change in the product and age mix of complaints.

**Expenses**

The Group expects to maintain the PPI operation on its current scale for longer than previously anticipated given the update to volume related assumptions and the re-review of previously handled cases continuing into the second half of 2015. The estimate for administrative expenses, which comprise complaint handling costs and costs arising from cases subsequently referred to the FOS, is included in the provision increase outlined above.

**Sensitivities**

The Group estimates that it has sold approximately 16 million policies since 2000. These include policies that were not mis-sold as they were suitable for, and appropriately disclosed to, the customer. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for in excess of 45 per cent of the policies sold since 2000, covering both customer-initiated complaints and actual and expected proactive mailings undertaken by the Group.

The cash payments in the first half of 2015 were approximately £1.7 billion covering PBR, remediation and reactive complaints and associated administration costs. The PBR and remediation programmes are expected to be substantially complete by the end of this year, slightly later than envisaged. The monthly run-rate spend of these programmes is expected to reduce significantly from the current level of around £140 million to around £30 million by the end of the year with an associated reduction in operating costs.

The total amount provided for PPI represents the Group's best estimate of the likely future costs. A number of risks and uncertainties remain, in particular with respect to future complaint volumes, which are primarily driven by the level of CMC initiated complaints. The current provision assumes a significant decrease in reactive complaint volumes over the next 18 months compared with recent quarterly trends. If this decline is delayed by six months and reactive complaints remain at the same level as the first half of 2015, this would lead to an additional provision of approximately £1.0 billion at the end of the year; a similar level of provisioning would be required for each six months of flat complaint volumes in 2016.

**10. Provisions for liabilities and charges** (continued)

Key metrics and sensitivities are highlighted in the table below:

Sensitivities <sup>1</sup>	To date unless noted	Future	Sensitivity
Reactive complaints since origination (m) <sup>2</sup>	3.2	0.7	0.1 = £240m
Proactive mailing:			
– number of policies (m) <sup>3</sup>	2.7	0.1	n/a
– response rate <sup>4</sup>	34%	30%	1% = £3m
Average uphold rate per policy <sup>5</sup>	78%	75%	1% = £12m
Average redress per upheld policy <sup>6</sup>	£1,935	£2,000	£100 = £90m
Remediation cases (m) <sup>7</sup>	0.7	0.7	1 case = £400
Administrative expenses (£m)	2,420	400	1 case = £500

<sup>1</sup> All sensitivities exclude claims where no PPI policy was held.

<sup>2</sup> Sensitivity includes complaint handling costs, and have increased as a result of higher average redress and a shift towards older policies.

<sup>3</sup> To date volume includes customer initiated complaints.

<sup>4</sup> Metric relates to mature mailings only. Future response rates are expected to be lower than experienced to date as mailings to higher risk customers have been prioritised.

<sup>5</sup> The percentage of complaints where the Group finds in favour of the customer. This is a blend of proactive and customer initiated complaints. The 78 per cent uphold rate is based on six months to June 2015. The lower uphold rate in the future reflects a lower proportion of PBR related cases which typically have a higher uphold rate, reflecting the higher risk nature of those policy sales.

<sup>6</sup> The amount that is paid in redress in relation to a policy found to have been mis-sold, comprising, where applicable, the refund of premium, compound interest charged and interest at 8 per cent per annum. Actuals are based on the six months to June 2015. The increase in future average redress is influenced by a shift in the reactive complaint mix towards older, and therefore more expensive, policies.

<sup>7</sup> Remediation to date is based on cases reviewed as at 30 June 2015, but not necessarily settled. The sensitivity is based on the expected future average cost of a remediation case. It is an average of full payments, top-up payments and nil payouts where the original decision is retained. It is lower than experienced to date as future remediation largely comprises top-up payments on previously redressed cases.

**Other regulatory provisions***Litigation in relation to insurance branch business in Germany*

Clerical Medical Investment Group Limited (CMIG) has received a number of claims in the German courts relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. Following decisions in July 2012 from the Federal Court of Justice in Germany the Group recognised provisions totalling £520 million during the period to 31 December 2014. Recent experience has been broadly in line with expectations and, accordingly, no further provision has been recognised in the half-year to 30 June 2015. The remaining unutilised provision as at 30 June 2015 is £137 million.

The validity of the claims facing CMIG depends upon the facts and circumstances in respect of each claim. As a result the ultimate financial effect, which could be significantly different from the current provision, will only be known once all relevant claims have been resolved.

*Interest rate hedging products*

In June 2012, a number of banks, including the Lloyds Banking Group, reached agreement with the FSA (now FCA) to carry out a review of sales made since 1 December 2001 of interest rate hedging products (IRHP) to certain small and medium-sized businesses. As at 30 June 2015 the Lloyds Banking Group had identified 1,723 sales of IRHPs to customers within scope of the agreement with the FCA which have opted in and are being reviewed and, where appropriate, redressed. The Lloyds Banking Group agreed that it would provide redress to any in-scope customers where appropriate. The Lloyds Banking Group continues to review the remaining cases within the scope of the agreement with the FCA and has met all of the regulator's requirements to date.

At 30 June 2015, the total amount provided for redress and related administration costs for in-scope customers was £680 million (31 December 2014: £680 million). As at 30 June 2015, the Group has utilised £617 million (31 December 2014: £571 million), with £63 million (31 December 2014: £109 million) of the provision remaining.

## 10. Provisions for liabilities and charges (continued)

### *FCA review of complaint handling*

On 5 June 2015 the FCA announced a settlement with the Group totalling £117 million following its investigation into aspects of the Group's PPI complaint handling process during the period March 2012 to May 2013. The FCA did not find that the Group acted deliberately. The Group has reviewed all customer complaints fully defended during the Relevant Period. The remediation costs of reviewing these affected cases are not materially in excess of existing provisions.

### *Other legal actions and regulatory matters*

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Group also receives complaints and claims from customers in connection with its past conduct and, where significant, provisions are held against the costs expected to be incurred as a result of the conclusions reached. During the half-year to 30 June 2015, the Group charged an additional £318 million (half-year to 30 June 2014: £225 million) in respect of a number of matters affecting the Retail, Commercial Banking and Consumer Finance divisions. This includes a provision of £175 million for customer redress and associated administration costs in response to complaints concerning Packaged Bank Accounts. At 30 June 2015, provisions for other legal actions and regulatory matters of £732 million remained unutilised.

## 11. Contingent liabilities and commitments

### *Interchange fees*

With respect to interchange fees, the Group is following closely the course of investigations, litigation and recent regulation (as described below) which involve card schemes such as Visa and MasterCard. The Group is not directly involved in these matters but is a member of certain card schemes, in particular, Visa and MasterCard. The matters referred to above include the following:

- A new European Regulation to regulate cross-border and domestic fallback multilateral interchange fees (MIFs) in the EU. This regulation came into force on 8 June 2015 and it will introduce interchange fee caps for credit card MIFs (to 30 bps) and debit card MIFs (to 20bps). The interchange fee caps come in to force on 9 December 2015;
- The European Commission also continues to pursue other competition investigations into MasterCard and Visa probing, amongst other things, interchange paid in respect of cards issued outside the EEA;
- Litigation continues in the English High Court against both Visa and MasterCard. This litigation has been brought by several retailers who are seeking damages for allegedly 'overpaid' MIFs;
- The new UK payments regulator may exercise its powers to regulate domestic interchange fees. In addition, the FCA has undertaken a market study in relation to the UK credit cards market.

The ultimate impact on the Group of the above investigations, regulatory or legislative developments and the litigation against VISA and MasterCard can only be known at the conclusion of these matters.

### *LIBOR and other trading rates*

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

## 11. Contingent liabilities and commitments (continued)

Certain Lloyds Banking Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US Dollar, Japanese Yen and Sterling LIBOR. The lawsuits, which contain broadly similar allegations, allege violations of the Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act (RICO) and the Commodity Exchange Act (CEA), as well as various state statutes and common law doctrines. Certain of the plaintiffs' claims, including those asserted under US anti-trust laws, have been dismissed by the US Federal Court for Southern District of New York (the District Court). That court's dismissal of plaintiffs' anti-trust claims has been appealed to the New York Federal Court of Appeal.

Certain Lloyds Banking Group Companies are also named as defendants in UK based claims raising LIBOR manipulation allegations in connection with interest rate hedging products.

The Lloyds Banking Group also reviewed its activities in relation to the setting of certain foreign exchange daily benchmark rates and related matters. The Lloyds Banking Group has been co-operating with the FCA and other regulators and has been providing information about the Group's review to those regulators. In addition, the Lloyds Banking Group, together with a number of other banks, was named as a defendant in several actions filed in the District Court between late 2013 and February 2014, in which the plaintiffs alleged that the defendants manipulated WM/Reuters foreign exchange rates in violation of US antitrust laws. On 31 March 2014, plaintiffs effectively withdrew their claims against the Lloyds Banking Group (but not against all defendants) by filing a superseding consolidated and amended pleading against a number of other defendants without naming any Lloyds Banking Group entity as a defendant.

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

### ***Financial Services Compensation Scheme***

The Financial Services Compensation Scheme (FSCS) is the UK's independent statutory compensation fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable or likely to be unable to pay claims against it. The FSCS is funded by levies on the authorised financial services industry. Each deposit-taking institution contributes towards the FSCS levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March.

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. At 31 March 2015, the principal balance outstanding on these loans was £15,797 million (31 March 2014: £16,591 million). Although the substantial majority of this loan will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS. The amount of future levies payable by the Group depends on a number of factors including the amounts recovered by the FSCS from asset sales, the Group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of deposit-taking participants.

### ***PRA/FCA report on HBOS***

On 12 September 2012 the FSA announced that it was starting work on a public interest report on HBOS. That report is now being produced as a joint PRA/FCA report but has not yet been published.

## 11. Contingent liabilities and commitments (continued)

### ***Tax authorities***

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In the second half of 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities of approximately £600 million and a reduction in the Lloyds Banking Group's deferred tax asset of approximately £400 million (overall impact on the Group of approximately £950 million). The Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

### ***Residential mortgage repossessions***

In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases, concerning certain aspects of the Lloyds Banking Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The Lloyds Banking Group is reviewing the issues raised by the judgment and will respond as appropriate to any investigations or proceedings that may in due course be instigated as a result of these issues.

### ***Plevin v Paragon Personal Finance Limited***

On 27 May 2015 the FCA gave an update on its announcement from January 2015 that it would be collecting evidence on current trends in PPI complaints to assess whether the current approach to PPI complaint handling is continuing to meet its objectives. The FCA stated that it expects to give its view in the summer. In that announcement the FCA also noted that in November 2014 the Supreme Court had ruled in *Plevin v Paragon Personal Finance Limited* [2014] UKSC 6 (*Plevin*) that the lender's failure to disclose a large commission payment on a single premium PPI policy made the relationship between that lender and the borrower unfair under section 140A of the Consumer Credit Act 1974. The FCA is considering whether additional rules and/or guidance are required to deal with the potential impact of the *Plevin* decision on complaints about PPI and indicated that it expects to announce its views on this aspect, including next steps, in its announcement in the summer. The Financial Ombudsman Service are also considering the implications for PPI complaints. Given the current uncertainty, it is not presently possible to estimate the financial impact of the *Plevin* decision and accordingly no additional provision has been established at this stage, but it is possible that the impact could be material.

### ***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 employees, customers, investors or other third parties, as well as regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. 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.

**11. Contingent liabilities and commitments (continued)****Contingent liabilities and commitments arising from the banking business**

	<b>At 30 June 2015 £m</b>	<b>At 31 Dec 2014 £m</b>
<b>Contingent liabilities</b>		
Acceptances and endorsements	<b>130</b>	59
Other:		
Other items serving as direct credit substitutes	<b>405</b>	330
Performance bonds and other transaction-related contingencies	<b>2,034</b>	2,293
	<b>2,439</b>	2,623
<b>Total contingent liabilities</b>	<b>2,569</b>	2,682
<b>Commitments</b>		
Documentary credits and other short-term trade-related transactions	<b>42</b>	101
Forward asset purchases and forward deposits placed	<b>428</b>	162
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	<b>10,463</b>	8,809
Other commitments	<b>59,901</b>	64,015
	<b>70,364</b>	72,824
1 year or over original maturity	<b>35,679</b>	34,455
<b>Total commitments</b>	<b>106,513</b>	107,542

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £55,027 million (31 December 2014: £55,029 million) was irrevocable.

## 12. 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 51 to the Group's 2014 financial statements describes the definitions of the three levels in the fair value hierarchy.

### Valuation control framework

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

### Transfers into and out of level 3 portfolios

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

### Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to what was disclosed in the Group's 2014 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied to such portfolios.

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

	30 June 2015		31 December 2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Financial assets</b>				
Trading and other financial assets at fair value through profit or loss	148,455	148,455	152,520	152,520
Derivative financial instruments	27,725	27,725	35,483	35,483
Loans and receivables:				
Loans and advances to banks	23,548	23,892	26,155	26,031
Loans and advances to customers	452,427	450,321	482,704	480,631
Debt securities	1,569	1,491	1,213	1,100
Due from fellow Lloyds Banking Group undertakings	11,599	11,599	11,482	11,482
	489,143	487,303	521,554	519,244
Available-for-sale financial instruments	32,173	32,173	56,493	56,493
Held-to-maturity- investments	19,960	19,785	-	-
<b>Financial liabilities</b>				
Deposits from banks	16,966	16,978	10,887	10,902
Customer deposits	416,595	416,933	447,067	450,038
Due to fellow Lloyds Banking Group undertakings	5,352	5,352	5,288	5,288
Trading and other financial liabilities at fair value through profit or loss	63,328	63,328	62,102	62,102
Derivative financial instruments	27,856	27,856	33,293	33,293
Debt securities in issue	77,219	79,843	75,672	79,664
Liabilities arising from non-participating investment contracts	26,131	26,131	27,248	27,248
Financial guarantees	44	44	51	51
Subordinated liabilities	28,583	31,532	31,973	34,780

**12. Fair values of financial assets and liabilities** (continued)

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

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

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

**Financial assets**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>At 30 June 2015</b>				
Trading and other financial assets at fair value through profit or loss:				
Loans and advances to customers	–	26,601	–	26,601
Loans and advances to banks	–	6,564	–	6,564
Debt securities	24,156	22,957	3,670	50,783
Equity shares	62,668	337	1,480	64,485
Treasury and other bills	22	–	–	22
Total trading and other financial assets at fair value through profit or loss	<u>86,846</u>	<u>56,459</u>	<u>5,150</u>	<u>148,455</u>
Available-for-sale financial assets:				
Debt securities	24,896	5,366	–	30,262
Equity shares	47	709	303	1,059
Treasury and other bills	852	–	–	852
Total available-for-sale financial assets	<u>25,795</u>	<u>6,075</u>	<u>303</u>	<u>32,173</u>
Derivative financial instruments	51	25,696	1,978	27,725
Total financial assets carried at fair value	<u>112,692</u>	<u>88,230</u>	<u>7,431</u>	<u>208,353</u>
<b>At 31 December 2014</b>				
Trading and other financial assets at fair value through profit or loss:				
Loans and advances to customers	–	28,513	–	28,513
Loans and advances to banks	–	8,212	–	8,212
Debt securities	24,230	24,495	3,457	52,182
Equity shares	60,164	343	1,647	62,154
Treasury and other bills	1,459	–	–	1,459
Total trading and other financial assets at fair value through profit or loss	<u>85,853</u>	<u>61,563</u>	<u>5,104</u>	<u>152,520</u>
Available-for-sale financial assets:				
Debt securities	47,437	7,151	–	54,588
Equity shares	45	727	270	1,042
Treasury and other bills	852	11	–	863
Total available-for-sale financial assets	<u>48,334</u>	<u>7,889</u>	<u>270</u>	<u>56,493</u>
Derivative financial instruments	94	33,264	2,125	35,483
Total financial assets carried at fair value	<u>134,281</u>	<u>102,716</u>	<u>7,499</u>	<u>244,496</u>

**12. Fair values of financial assets and liabilities** (continued)**Financial liabilities**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>At 30 June 2015</b>				
Trading and other financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	-	7,393	1	7,394
Trading liabilities	<u>3,592</u>	<u>52,342</u>	<u>-</u>	<u>55,934</u>
Total trading and other financial liabilities at fair value through profit or loss	<u>3,592</u>	<u>59,735</u>	<u>1</u>	<u>63,328</u>
Derivative financial instruments	<u>108</u>	<u>26,415</u>	<u>1,333</u>	<u>27,856</u>
Financial guarantees	<u>-</u>	<u>-</u>	<u>44</u>	<u>44</u>
Total financial liabilities carried at fair value	<u>3,700</u>	<u>86,150</u>	<u>1,378</u>	<u>91,228</u>
At 31 December 2014				
Trading and other financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	-	6,739	5	6,744
Trading liabilities	<u>2,700</u>	<u>52,658</u>	<u>-</u>	<u>55,358</u>
Total trading and other financial liabilities at fair value through profit or loss	<u>2,700</u>	<u>59,397</u>	<u>5</u>	<u>62,102</u>
Derivative financial instruments	<u>68</u>	<u>31,769</u>	<u>1,456</u>	<u>33,293</u>
Financial guarantees	<u>-</u>	<u>-</u>	<u>51</u>	<u>51</u>
Total financial liabilities carried at fair value	<u>2,768</u>	<u>91,166</u>	<u>1,512</u>	<u>95,446</u>

**12. 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.

	Trading and other financial assets at fair value through profit or loss	Available- for-sale financial assets	Derivative assets	Total financial assets carried at fair value
	£m	£m	£m	£m
At 1 January 2015	5,104	270	2,126	7,500
Exchange and other adjustments	(1)	-	(45)	(46)
Losses recognised in the income statement within other income	(61)	-	(143)	(204)
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	-	1	-	1
Purchases	785	38	182	1,005
Sales	(649)	(6)	(105)	(760)
Transfers into the level 3 portfolio	20	-	-	20
Transfers out of the level 3 portfolio	(48)	-	(37)	(85)
<b>At 30 June 2015</b>	<b>5,150</b>	<b>303</b>	<b>1,978</b>	<b>7,431</b>
<b>Losses recognised in the income statement within other income relating to those assets held at 30 June 2015</b>	<b>(39)</b>	<b>-</b>	<b>(143)</b>	<b>(182)</b>
	Trading and other financial assets at fair value through profit or loss	Available- for-sale financial assets	Derivative assets	Total financial assets carried at fair value
	£m	£m	£m	£m
At 1 January 2014	4,232	449	1,807	6,488
Exchange and other adjustments	-	(9)	(9)	(18)
Gains (losses) recognised in the income statement within other income	167	(78)	50	139
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	-	15	-	15
Purchases	432	199	10	641
Sales	(367)	(173)	(104)	(644)
Transfers into the level 3 portfolio	441	-	22	463
Transfers out of the level 3 portfolio	-	(74)	(53)	(127)
<b>At 30 June 2014</b>	<b>4,905</b>	<b>329</b>	<b>1,723</b>	<b>6,957</b>
<b>Gains recognised in the income statement within other income relating to those assets held at 30 June 2014</b>	<b>140</b>	<b>-</b>	<b>50</b>	<b>190</b>

**12. Fair values of financial assets and liabilities** (continued)

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

	<b>Trading and other financial liabilities at fair value through profit or loss £m</b>	<b>Derivative liabilities £m</b>	<b>Financial guarantees £m</b>	<b>Total financial liabilities carried at fair value £m</b>
At 1 January 2015	5	1,456	51	1,512
Exchange and other adjustments	-	(33)	-	(33)
(Gains) losses recognised in the income statement within other income	-	(100)	(7)	(107)
Additions	-	124	-	124
Redemptions	(4)	(102)	-	(106)
Transfers out of the level 3 portfolio	-	(12)	-	(12)
<b>At 30 June 2015</b>	<b>1</b>	<b>1,333</b>	<b>44</b>	<b>1,378</b>
<b>Gains (losses) recognised in the income statement within other income relating to those liabilities held at 30 June 2015</b>	<b>-</b>	<b>(100)</b>	<b>(7)</b>	<b>(107)</b>
	<b>Trading and other financial liabilities at fair value through profit or loss £m</b>	<b>Derivative liabilities £m</b>	<b>Financial guarantees £m</b>	<b>Total financial liabilities carried at fair value £m</b>
At 1 January 2014	39	986	50	1,075
Exchange and other adjustments	-	(5)	-	(5)
(Gains) losses recognised in the income statement within other income	(2)	78	(2)	74
Additions	-	5	-	5
Redemptions	(25)	(53)	-	(78)
Transfers into the level 3 portfolio	-	5	-	5
<b>At 30 June 2014</b>	<b>12</b>	<b>1,016</b>	<b>48</b>	<b>1,076</b>
<b>Gains (losses) recognised in the income statement within other income relating to those liabilities held at 30 June 2014</b>	<b>-</b>	<b>(78)</b>	<b>-</b>	<b>(78)</b>

**12. 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 2015		
				Carrying value £m	Effect of reasonably possible alternative assumptions <sup>1</sup>	
Valuation technique(s)	Significant unobservable inputs	Range <sup>2</sup>	Favourable changes £m		Unfavourable changes £m	
<i>Trading and other financial assets at fair value through profit or loss:</i>						
Equity and venture capital investments	Market approach	Earnings multiple	<b>4/16</b>	<b>2,179</b>	<b>75</b>	<b>(75)</b>
Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/net asset value (incl. property prices) <sup>3</sup>	n/a	<b>n/a</b>	<b>2,615</b>	<b>-</b>	<b>(6)</b>
Other				<b>356</b>		
				<b>5,150</b>		
<i>Available for sale financial assets</i>				<b>303</b>		
<i>Derivative financial assets:</i>						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	<b>6/177</b>	<b>1,410</b>	<b>12</b>	<b>(13)</b>
	Option pricing model	Interest rate volatility	<b>0%/76%</b>	<b>568</b>	<b>4</b>	<b>(4)</b>
				<b>1,978</b>		
Financial assets carried at fair value				<b>7,431</b>		
<i>Trading and other financial liabilities at fair value through profit or loss</i>				<b>1</b>		
<i>Derivative financial liabilities:</i>						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	<b>6/177</b>	<b>846</b>	<b>-</b>	<b>-</b>
	Option pricing model	Interest rate volatility	<b>0%/76%</b>	<b>487</b>	<b>-</b>	<b>-</b>
				<b>1,333</b>		
Financial guarantees				<b>44</b>		
Financial liabilities carried at fair value				<b>1,378</b>		

<sup>1</sup> Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

<sup>2</sup> The range represents the highest and lowest inputs used in the level 3 valuations.

<sup>3</sup> Underlying asset/net asset values represent fair value.

**12. Fair values of financial assets and liabilities** (continued)

At 31 December 2014						
	Valuation technique(s)	Significant unobservable inputs	Range <sup>2</sup>	Carrying value £m	Effect of reasonably possible alternative assumptions <sup>1</sup>	
					Favourable changes £m	Unfavourable changes £m
<i>Trading and other financial assets at fair value through profit or loss:</i>						
Equity and venture capital investments	Market approach	Earnings multiple	4/14	2,214	75	(75)
Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/net asset value (incl. property prices) <sup>3</sup>	n/a	n/a	2,617	4	(2)
Other				273		
				5,104		
<i>Available for sale financial assets</i>				270		
<i>Derivative financial assets:</i>						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	3/167	1,382	17	(16)
	Option pricing model	Interest rate volatility	4%/120%	743	6	(6)
				2,125		
Financial assets carried at fair value				7,499		
<i>Trading and other financial liabilities at fair value through profit or loss</i>				5		
<i>Derivative financial liabilities:</i>						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	3/167	807		
	Option pricing model	Interest rate volatility	4%/120%	649		
				1,456		
Financial guarantees				51		
Financial liabilities carried at fair value				1,512		

<sup>1</sup> Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

<sup>2</sup> The range represents the highest and lowest inputs used in the level 3 valuations.

<sup>3</sup> 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 2014 financial statements.

**Reasonably possible alternative assumptions**

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and are unchanged from those described in the Group's 2014 financial statements.

### 13. Related party transactions

#### Balances and transactions with fellow Lloyds Banking Group undertakings

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

	<b>At 30 June 2015 £m</b>	<b>At 31 Dec 2014 £m</b>
<b>Assets</b>		
Loans and receivables: Due from fellow Lloyds Banking Group undertakings	<b>11,599</b>	11,482
Trading and other financial assets at fair value through profit or loss	<b>9</b>	-
<b>Liabilities</b>		
Due to fellow Lloyds Banking Group undertakings	<b>5,352</b>	5,288
Derivative financial instruments	<b>78</b>	106
Subordinated liabilities	<b>11,141</b>	11,364

During the half-year to 30 June 2015 the Group earned £66 million (half-year to 30 June 2014: £83 million) of interest income and incurred £561 million (half-year to 30 June 2014: £569 million) of interest expense on balances and transactions with Lloyds Banking Group plc and fellow Group undertakings.

#### UK government

In January 2009, the UK government through HM Treasury became a related party of the Lloyds Banking Group plc, the Bank's parent company, following its subscription for ordinary shares issued under a placing and open offer. As at 30 June 2015, HM Treasury held an interest of 16.87 per cent in Lloyds Banking Group plc's ordinary share capital, with its interest having fallen below 20 per cent on 11 May 2015. As a consequence of HM Treasury no longer being considered to have a significant influence, it ceased to be a related party of Lloyds Banking Group plc, and therefore of the Group, for IAS 24 purposes at that date.

In accordance with IAS 24, UK government-controlled entities were related parties of the Group; the Group regarded the Bank of England and entities controlled by the UK government, including The Royal Bank of Scotland Group plc (RBS), NRAM plc and Bradford & Bingley plc, as related parties.

The Lloyds Banking Group has participated in a number of schemes operated by the UK government and central banks and made available to eligible banks and building societies.

#### *National Loan Guarantee Scheme*

The Lloyds Banking Group has participated in the UK government's National Loan Guarantee Scheme, which was launched on 20 March 2012. Through the scheme, the Lloyds Banking Group is providing eligible UK businesses with discounted funding, subject to continuation of the scheme and its financial benefits, and based on the Lloyds Banking Group's existing lending criteria. Eligible businesses who have taken up the funding benefit from a 1 per cent discount on their funding rate for a pre-agreed period of time.

### 13. Related party transactions (continued)

#### *Funding for Lending*

In August 2012, the Lloyds Banking Group announced its support for the UK Government's Funding for Lending Scheme and confirmed its intention to participate in the scheme. The Funding for Lending Scheme represents a further source of cost effective secured term funding available to the Lloyds Banking Group. The original initiative supported a broad range of UK based customers, providing householders with more affordable housing finance and businesses with cheaper finance to invest and grow. In November 2013, the Lloyds Banking Group entered into extension letters with the Bank of England to take part in an extension of the Funding for Lending Scheme until the end of January 2015. This extension of the Funding for Lending Scheme focused on providing businesses with cheaper finance to invest and grow. In December 2014, the Bank of England announced a further extension to the Funding for Lending Scheme running to the end of January 2016 with an increased focus on supporting small businesses. At 30 June 2015, the Lloyds Banking Group had drawn down £24 billion (31 December 2014: £20 billion) under the Funding for Lending Scheme, of which £14 billion had been drawn down under the extension to the scheme announced in 2013.

#### *Enterprise Finance Guarantee*

The Lloyds Banking Group participates in the Enterprise Finance Guarantee Scheme which was launched in January 2009 as a replacement for the Small Firms Loan Guarantee Scheme. The scheme is a UK government-backed loan guarantee, which supports viable businesses with access to lending where they would otherwise be refused a loan due to a lack of lending security. The Department for Business, Innovation and Skills (formerly the Department for Business, Enterprise and Regulatory Reform) provides the lender with a guarantee of up to 75 per cent of the capital of each loan subject to the eligibility of the customer within the rules of the scheme. As at 30 June 2015, the Lloyds Banking Group had offered 6,378 loans to customers, worth over £539 million. Under the most recent renewal of the terms of the scheme, Lloyds Bank plc and Bank of Scotland plc, on behalf of the Lloyds Banking Group, contracted with The Secretary of State for Business, Innovation and Skills.

#### *Help to Buy*

On 7 October 2013, Bank of Scotland plc entered into an agreement with The Commissioners of Her Majesty's Treasury by which it agreed that the Halifax Division of Bank of Scotland plc would participate in the Help to Buy Scheme with effect from 11 October 2013 and that Lloyds Bank plc would participate from 3 January 2014. The Help to Buy Scheme is a scheme promoted by the UK government and is aimed to encourage participating lenders to make mortgage loans available to customers who require higher loan-to-value mortgages. Halifax and Lloyds are currently participating in the Scheme whereby customers borrow between 90 per cent and 95 per cent of the purchase price. In return for the payment of a commercial fee, HM Treasury has agreed to provide a guarantee to the lender to cover a proportion of any loss made by the lender arising from a higher loan-to-value loan being made. £2,484 million of outstanding loans at 30 June 2015 (31 December 2014: £1,950 million) had been advanced by the Lloyds Banking Group under this scheme.

#### *Business Growth Fund*

The Lloyds Banking Group has invested £151 million (31 December 2014: £118 million) in the Business Growth Fund (under which an agreement was entered into with RBS amongst others) and, as at 30 June 2015, carries the investment at a fair value of £142 million (31 December 2014: £105 million).

#### *Big Society Capital*

The Lloyds Banking Group has invested £33 million in the Big Society Capital Fund under which an agreement was entered into with RBS amongst others.

#### *Housing Growth Partnership*

The Lloyds Banking Group has committed to invest up to £50 million into the Housing Growth Partnership under which an agreement was entered into with the Homes and Communities Agency.

#### *Central bank facilities*

In the ordinary course of business, the Lloyds Banking Group may from time to time access market-wide facilities provided by central banks.

**13. Related party transactions (continued)***Other government-related entities*

There were no significant transactions with other UK government-controlled entities (including UK government-controlled banks) during the year that were not made in the ordinary course of business or that were unusual in their nature or conditions.

**Other related party transactions**

Other related party transactions for the half-year to 30 June 2015 are similar in nature to those for the year ended 31 December 2014.

**14. Disposal of interest in TSB Banking Group plc**

On 20 March 2015 the Group announced that it had agreed to sell a 9.99 per cent interest in TSB Banking Group plc (TSB) to Banco de Sabadell S.A. (Banco Sabadell) and that it had entered into an irrevocable undertaking to accept Banco Sabadell's recommended cash offer in respect of its remaining 40.01 per cent interest in TSB. The offer by Banco Sabadell was conditional, amongst other things, upon regulatory approval.

The sale of the 9.99 per cent interest completed on 24 March 2015, reducing the Group's holding in TSB to 40.01 per cent; this sale led to a loss of control and the deconsolidation of TSB. The Group's residual investment in 40.01 per cent of TSB was then recorded at fair value, as an asset held for sale. The Group recognised a loss of £660 million reflecting the net costs of the Transitional Service Agreement between Lloyds and TSB, the contribution to be provided by Lloyds to TSB in moving to alternative IT provision and the net result on sale of the 9.99 per cent interest and fair valuation of the residual investment.

The Group announced on 30 June 2015 that all relevant regulatory clearances had been received and that the sale was therefore unconditional in all respects, so that at 30 June 2015 the Group was carrying a receivable from Banco Sabadell in respect of the final proceeds of sale. The proceeds were received on 10 July 2015.

**15. Ordinary dividends**

The directors have approved an interim dividend of £540 million which will be paid in the second half of 2015.

A dividend of £540 million in respect of the year ended 31 December 2014 was paid in May 2015.

**16. Events since the balance sheet date**

On 30 July 2015, the Group announced that it had agreed the sale of a portfolio of Irish commercial loans, with a book value of £724 million, for a cash consideration of approximately £827 million; after transaction and other costs the gain on disposal is not expected to be significant. The transaction is expected to complete in the fourth quarter of 2015.

## 17. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2015 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Group.

### *IFRS 9 Financial Instruments*

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the Group.

IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change is likely to result in an increase in the Group's balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the Group's lending portfolios and forecast economic conditions at the date of implementation. In February 2015, the Basel Committee on Banking Supervision published a consultative document outlining supervisory expectations regarding sound credit risk practices associated with implementing and applying an expected credit loss accounting framework. A final version is expected to be issued at the end of 2015.

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the Group.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. As at 30 July 2015, this pronouncement is awaiting EU endorsement.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Group.

IFRS 15 is effective for annual periods beginning on or after 1 January 2017, although in May 2015, the IASB issued an exposure draft proposing to defer the effective date to 1 January 2018. In addition, on 30 July 2015 another exposure draft was issued proposing targeted amendments to the standard. As at 30 July 2015, this standard is awaiting EU endorsement.

## 18. Ultimate parent undertaking

The Bank's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published consolidated accounts for the year to 31 December 2014 and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN and available for download from [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com).

## 19. Other information

The financial information in these condensed consolidated half-year financial statements does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include an emphasis of matter paragraph and did not include a statement under section 498 of the Companies Act 2006.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors listed below (being all the directors of Lloyds Bank plc) confirm that to the best of their knowledge these condensed consolidated half-year financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted by the European Union, and that the half-year 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 2015 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 2015 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by

António Horta-Osório  
Group Chief Executive  
30 July 2015

**Lloyds Bank plc board of directors:**

António Horta-Osório (Group Chief Executive)  
George Culmer (Chief Financial Officer)  
Juan Colombás (Chief Risk Officer)  
Lord Blackwell (Chairman)  
Anita Frew (Deputy Chairman)  
Alan Dickinson  
Carolyn Fairbairn  
Simon Henry  
Dyfrig John CBE  
Nicholas Luff  
Nicholas Prettejohn  
Anthony Watson CBE  
Sara Weller CBE

## INDEPENDENT REVIEW REPORT TO LLOYDS BANK PLC

### Report on the condensed consolidated half-year financial statements

#### ***Our conclusion***

We have reviewed the condensed consolidated half-year financial statements, defined below, in the half-year management report of Lloyds Bank plc for the six months ended 30 June 2015. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-year financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

#### ***What we have reviewed***

The condensed consolidated half-year financial statements, which are prepared by Lloyds Bank plc, comprise:

- the consolidated income statement for the six months ended 30 June 2015;
- the consolidated statement of comprehensive income for the six months ended 30 June 2015;
- the consolidated balance sheet as at 30 June 2015;
- the consolidated statement of changes in equity for the six months ended 30 June 2015;
- the consolidated cash flow statement for the six months ended 30 June 2015; and
- the explanatory notes to the condensed consolidated half-year financial statements

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

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

#### ***What a review of condensed consolidated financial statements involves***

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

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

We have read the other information contained in the half-year management report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated half-year financial statements.

**INDEPENDENT REVIEW REPORT TO LLOYDS BANK PLC** (continued)**Responsibilities for the condensed consolidated half-year financial statements and the review*****Our responsibilities and those of the directors***

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

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

PricewaterhouseCoopers LLP  
Chartered Accountants  
30 July 2015  
London

**Notes:**

- (a) The maintenance and integrity of the Lloyds Banking Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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For further information please contact:

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

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