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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

28 JULY 2016

Commission File number 001-15246

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

25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

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

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (1) ________.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (7) ________.

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-211791 and 333-211791-01) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

EXPLANATORY NOTE

This report on Form 6-K contains the interim report of Lloyds Banking Group plc, which includes the unaudited consolidated interim results for the half-year ended 30 June 2016, and is being incorporated by reference into the Registration Statement with File Nos. 333-211791 and 333-211791-01.

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the half-year ended 30 June 2016.

Statutory basis: Statutory information is set out on pages 44 to 93. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. Accordingly, the results are also presented on an underlying basis.

Underlying basis: These results are adjusted for certain items which are listed below, to allow a comparison of the Group's underlying performance.

– losses on redemption of the Enhanced Capital Notes and the volatility in the value of the embedded equity conversion feature;

– market volatility and other items, which includes the effects of certain asset sales, the volatility relating to the Group's own debt and hedging arrangements as well as that arising in the insurance businesses, insurance gross up, the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets;

– restructuring costs, comprising severance related costs relating to the Simplification programme announced in October 2014 and the costs of implementing regulatory reform and ring fencing;

– TSB Banking Group plc (TSB) build and dual running costs and the loss relating to the TSB sale in 2015; and

– payment protection insurance and other conduct provisions.

Unless otherwise stated, income statement commentaries throughout this document compare the half-year ended 30 June 2016 to the half-year ended 30 June 2015, and the balance sheet analysis compares the Group balance sheet as at 30 June 2016 to the Group balance sheet as at 31 December 2015.

Restatement: With effect from 1 January 2016 the unsecured personal loans business was transferred from Retail to Consumer Finance and elements of the Group's business in the Channel Islands and Isle of Man were transferred from Retail to Commercial Banking. The results for the six months ended 30 June 2016 and the comparative periods are reported on the new basis.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'like 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. 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.

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of Lloyds Banking Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates (including low or negative rates), exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the exit by the UK from the European Union (EU) and the potential for one or more other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of an exit by the UK from the EU, a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the United States or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations on the Group as a result of HM Treasury's investment in the Group; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints.

Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of the date hereof, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in Lloyds Banking Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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LLOYDS BANKING GROUP PLC

SUMMARY OF RESULTS

	Half-year to 30 June 2016	Half-year to 30 June 2015	***Change since 30 June 2015***	Half-year to 31 Dec 2015
	£m	£m	*%*	£m
Statutory results (IFRS)				
Total income, net of insurance claims	**8,320**	8,807	***(6)***	8,614
Total operating expenses	**(5,504)**	(7,453)	***26***	(7,934)
Trading surplus	**2,816**	1,354		680
Impairment	**(362)**	(161)		(229)
Profit before tax	**2,454**	1,193		451
Profit (loss) attributable to ordinary shareholders	**1,590**	677		(211)
Basic earnings (loss) per share	**2.3p**	1.0p		(0.2)p
Dividends per share[1]	**0.85p**	0.75p	***13***	2.0p
Underlying basis (page 6)				
Underlying profit	**4,161**	4,383	***(5)***	3,729

[1]Half-year to 31 December 2015 includes a special dividend of 0.5 pence per share.

Capital and balance sheet	**At 30 June 2016**	At 31 Dec 2015	***Change since 31 Dec 2015 %***
Statutory			
Loans and advances to customers	**£453bn**	£455bn	***–***
Customer deposits	**£423bn**	£418bn	***1***
Loan to deposit ratio[1]	**107%**	109%	***(2)pp***
Common equity tier 1 ratio[2]	**13.1%**	12.8%	***0.3pp***
Tier 1 capital ratio[2]	**16.4%**	16.4%	***–***
Total capital ratio[2]	**21.8%**	21.5%	***0.3pp***
Risk-weighted assets[2]	**£223bn**	£223bn	***–***

[1]Loans and advances to customers (excluding reverse repos) divided by customer deposits (excluding repos).

2 Reported on the transitional basis.

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LLOYDS BANKING GROUP PLC

STATUTORY INFORMATION (IFRS)

CONSOLIDATED INCOME STATEMENT

	Half-year to 30 June 2016 £ million	Half-year to 30 June 2015 £ million	Half-year to 31 Dec 2015 £ million
Interest and similar income	**8,479**	8,975	8,640
Interest and similar expense	**(3,254)**	(3,483)	(2,814)
Net interest income	**5,225**	5,492	5,826
Fee and commission income	**1,502**	1,598	1,654
Fee and commission expense	**(682)**	(607)	(835)
Net fee and commission income	**820**	991	819
Net trading income	**7,180**	3,018	696
Insurance premium income	**4,212**	1,414	3,378
Other operating income	**993**	890	626
Other income	**13,205**	6,313	5,519
Total income	**18,430**	11,805	11,345
Insurance claims	**(10,110)**	(2,998)	(2,731)
Total income, net of insurance claims	**8,320**	8,807	8,614
Regulatory provisions	**(445)**	(1,835)	(3,002)
Other operating expenses	**(5,059)**	(5,618)	(4,932)
Total operating expenses	**(5,504)**	(7,453)	(7,934)
Trading surplus	**2,816**	1,354	680
Impairment	**(362)**	(161)	(229)
Profit before tax	**2,454**	1,193	451
Taxation	**(597)**	(268)	(420)
Profit for the period	**1,857**	925	31
Profit attributable to ordinary shareholders	**1,590**	677	(211)
Profit attributable to other equity holders	**204**	197	197
Profit attributable to equity holders	**1,794**	874	(14)
Profit attributable to non-controlling interests	**63**	51	45
Profit for the period	**1,857**	925	31

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LLOYDS BANKING GROUP PLC

SUMMARY CONSOLIDATED BALANCE SHEET

Assets	At 30 June 2016 £ million	At 31 Dec 2015 £ million
Cash and balances at central banks		
Trading and other financial assets at fair value through profit or loss	**73,399**	58,417
Derivative financial instruments	**146,177**	140,536
Loans and receivables:	**47,323**	29,467
Loans and advances to customers	**453,033**	455,175
Loans and advances to banks	**25,958**	25,117
Debt securities	**3,996**	4,191
	482,987	484,483
Available-for-sale financial assets	**35,860**	33,032
Held-to-maturity investments	**21,500**	19,808
Other assets	**40,986**	40,945
Total assets	**848,232**	806,688

Liabilities		
Deposits from banks	**23,162**	16,925
Customer deposits	**423,279**	418,326
Trading and other financial liabilities at fair value through profit or loss	**52,094**	51,863
Derivative financial instruments	**42,376**	26,301
Debt securities in issue	**88,758**	82,056
Liabilities arising from insurance and investment contracts	**107,722**	103,071
Subordinated liabilities	**22,935**	23,312
Other liabilities	**38,968**	37,854
Total liabilities	**799,294**	759,708
Shareholders' equity	**43,151**	41,234
Other equity instruments	**5,355**	5,355
Non-controlling interests	**432**	391
Total equity	**48,938**	46,980
Total equity and liabilities	**848,232**	806,688

REVIEW OF RESULTS

The Group recorded a profit before tax of £2,454 million for the half year to 30 June 2016, an increase of £1,261 million compared with the profit before tax of £1,193 million for the half year to 30 June 2015.

Total income, net of insurance claims, decreased by £487 million, or 6 per cent, to £8,320 million for the half year to 30 June 2016 from £8,807 million in the half year to 30 June 2015.

Net interest income decreased by £267 million, or 5 per cent, to £5,225 million in the half year to 30 June 2016 compared with £5,492 million in the same period in 2015. This was due in part to an increase of £165 million in the charge within net interest income for amounts allocated to unit holders in Open-Ended Investment Companies (OEICs), from £357 million in the half year to 30 June 2015 to £522 million in the half year to 30 June 2016, as a result of higher investment returns in 2016; there was no significant impact from changes in the population of consolidated OEICs. Excluding this charge from both periods, and the £192 million net interest income of TSB from the comparative period, net interest income was £90 million, or 2 per cent, higher at £5,747 million in the half year to 30 June 2016 compared with £5,657 million in the same period in 2015.

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LLOYDS BANKING GROUP PLC

REVIEW OF RESULTS (continued)

The net interest margin on the Group's relationship lending and similar assets improved, offsetting a small reduction in average interest-earning assets, which principally related to lending outside of the Group's risk appetite as well as in the mortgages and larger corporate portfolios, only partly offset by growth in other personal finance and SME lending. The improvement in margin reflected lower deposit and wholesale funding costs, a one-off credit to net interest income related to the credit card portfolio and the impact of the Enhanced Capital Note (ECN) redemptions, more than offsetting pressure on asset prices.

Other income increased by £6,892 million to £13,205 million in the half year to 30 June 2016, compared with £6,313 million in the same period in 2015, due mainly to a £4,162 million increase in net trading income, reflecting higher income from the insurance businesses driven by the impact of market conditions on policyholder assets. These market movements, together with the increase in insurance premium income, were largely offset in the Group's income statement by a £7,112 million increase in the insurance claims expense, and the impact on net interest income of amounts allocated to unit holders in Open-Ended Investment Companies. Insurance premium income was £2,798 million higher at £4,212 million compared with £1,414 million in the half year to 30 June 2015; underlying premium income of £3,373 million in 2015 having been 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. Excluding this item from the comparable period, the insurance premium income of £4,212 million in the half year to 30 June 2016 was £839 million, or 25 per cent, higher as a result of increased bulk annuity business.

Net fee and commission income was £171 million, or 17 per cent, lower at £820 million in the half year to 30 June 2016 compared with £991 million in the half year to 30 June 2015, principally as a result of the disposal of TSB and reduced levels of card and current account fees.

Other operating income was £103 million, or 12 per cent, higher at £993 million in the half year to 30 June 2016 compared with £890 million in the half year to 30 June 2015. In the half year to 30 June 2016 the Group realised a gain of £484 million arising on the sale of its investment in Visa Europe Limited, there was a £152 million increase in liability management gains and an improvement in income from the movement in value of in-force insurance business; together these items more than offset a net loss of £721 million arising on the Group's tender offers and redemptions in respect of its ECNs which completed in March 2016. This loss principally comprised the write-off of the embedded equity conversion feature and premiums paid under the terms of the transaction.

There was a total regulatory provisions charge of £460 million in the half-year to 30 June 2016 compared to £1,835 million in the same period in 2015 of which £445 million (half-year to 30 June 2015: £1,835 million) was in expenses and £15 million (half-year to 30 June 2015: £nil) was recognized within income. No further provision has been taken for PPI, where complaint levels over the first half of 2016 have been around 8,500 per week on average, broadly in line with expectations. The Group's current PPI provision reflects the Group's interpretation of the Financial Conduct Authority's (FCA) consultation paper regarding a potential time bar, the *Plevin* case and the expected conclusion by mid-2018. The Group awaits the FCA's final decision however, should the time bar be longer than the proposed two years or the FCA's final decision be significantly delayed, then the Group may need to reassess its provision. The total charge of £460 million related to a range of other conduct issues and included £215 million in respect of arrears related activities on secured and unsecured retail products, £70 million in respect of complaints relating to packaged bank accounts and £50 million related to insurance products sold in Germany. In addition there were a number of smaller additions to existing conduct risk provisions totalling £125 million across all divisions.

Other operating expenses decreased by £559 million, or 10 per cent, to £5,059 million in the half year to 30 June 2016 compared with £5,618 million in the half year to 30 June 2015; although the half year to 30 June 2015 included a charge of £665 million relating to the disposal of TSB, adjusting for which costs were £106 million, or 2 per cent, higher at £5,059 million in the half year to 30 June 2016 compared with £4,953 million in the same period in 2015 as savings from the Group's restructuring initiatives have been more than offset by the impact of annual pay increases, higher levels of operating lease depreciation following continued growth in the Lex Autolease business and higher levels of restructuring costs.

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REVIEW OF RESULTS (continued)

Impairment losses increased by £201 million to £362 million in the half year to 30 June 2016 compared with £161 million in the half year to 30 June 2015. The impairment charge in respect of loans and receivables was £50 million, or 28 per cent, higher at £229 million in the half year to 30 June 2016 compared to £179 million in the same period in 2015.

Credit quality remains good and the increased charge is largely due to a reduction in the level of provision releases and lower write-backs from debt sales. In addition, there was an impairment charge of £146 million in respect of certain equity investments in the Group's available-for-sale portfolio.

The tax charge for the half year to 30 June 2016 was £597 million (half year to 30 June 2015: £268 million), representing an effective tax rate of 24 per cent. The effective tax rate reflects the impact of tax exempt gains and capital losses not previously recognised.

Total assets were £41,544 million or 5 per cent, higher at £848,232 million at 30 June 2016, compared with £806,688 million at 31 December 2015. Cash and balances at central banks were £14,982 million, or 26 per cent, higher at £73,399 million compared to £58,417 million at 31 December 2015, as the Group made use of favourable opportunities for the placing of funds; and derivative assets were £17,856 million, or 61 per cent, higher at £47,323 million compared to £29,467 million at 31 December 2015, as a result of increased market activity at the end of June 2016 and movements in exchange rates. Loans and advances to customers decreased by £2,142 million from £455,175 million at 31 December 2015 to £453,033 million at 30 June 2016; growth in unsecured personal finance and SME lending was more than offset by reductions in larger corporate lending, mortgage balances, as the Group concentrates on protecting margin in the current market, and in the portfolio of lending which is outside of the Group's risk appetite. Customer deposits increased by £4,953 million to £423,279 million compared with £418,326 million at 31 December 2015 following growth in corporate and SME deposits. Shareholders' equity increased by £1,917 million, or 5 per cent, from £41,234 million at 31 December 2015 to £43,151 million at 30 June 2016 as a result of the retained profit for the period of £1,794 million and the positive impact of other reserve movements, in particular in relation to the cash flow hedging reserve, more than offsetting total dividend payments in the period of £1,427 million.

The Group's wholesale funding was £131 billion at 30 June 2016 (31 December 2015: £120 billion) of which 39 per cent (31 December 2015: 32 per cent) had a maturity of less than one year. The Group's liquidity position remains satisfactory and the liquidity coverage ratio was in excess of 100 per cent at 30 June 2016.

The Group's transitional common equity tier 1 capital ratio increased to 13.1 per cent at the end of June 2016 from 12.8 per cent at the end of December 2015 and the transitional total capital ratio increased to 21.8 per cent (31 December 2015: 21.5 per cent).

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LLOYDS BANKING GROUP PLC

SEGMENTAL ANALYSIS OF PROFIT (LOSS) BEFORE TAX BY DIVISION (UNAUDITED)

Underlying basis

	Half-year to 30 June 2016	Half-year to 30 June 2015	Half-year to 31 Dec 2015
	£ million	£ million	£ million
Retail	**1,548**	1,603	1,488
Commercial Banking	**1,236**	1,212	1,266
Consumer Finance	**690**	756	625
Insurance	**446**	584	378
Other	**241**	228	(28)
Underlying profit before tax	**4,161**	4,383	3,729

The Group Executive Committee (GEC), which is the chief operating decision maker for the Group, reviews the Group's internal reporting based around these segments (which reflect the Group's organisational and management structures) in order to assess the Group's performance and allocate resources; this reporting is provided on an underlying profit before tax basis. The GEC believes that this basis better represents the performance of the Group. IFRS 8 requires that the Group present its segmental profit before tax on the basis reviewed by the chief operating decision maker that is most consistent with the measurement principles used in measuring the Group's statutory profit before tax. Accordingly, the Group presents its segmental underlying basis profit before tax in note 2 on page 53 of its financial statements in compliance with IFRS 8 *Operating Segments*.

The aggregate total of the underlying basis segmental results constitutes a non-GAAP measure as defined in the United States Securities and Exchange Commission's Regulation G. Management uses the aggregate and segmental underlying profit before tax, both non-GAAP measures, as measures of performance and believes that they provide important information for investors because they are comparable representations of the Group's performance. Profit before tax is the comparable GAAP measure to aggregate underlying profit before tax; the following table sets out the reconciliation of this non-GAAP measure to its comparable GAAP measure.

LLOYDS BANKING GROUP PLC

GROUP PROFIT RECONCILIATIONS

	Half-year to 30 June 2016	Half-year to 30 June 2015	Half-year to 31 Dec 2015
	£m	£m	£m
Underlying profit	**4,161**	4,383	3,729
Asset sales	**335**	(52)	106
Enhanced Capital Notes	**(790)**	(390)	289
Liability management	**146**	(6)	(22)
Own debt volatility	**69**	57	70
Other volatile items	**(50)**	36	(165)
Volatility arising in insurance business	**(372)**	18	(123)
Fair value unwind	**(110)**	(77)	(115)
Restructuring and TSB build and dual running costs	**(307)**	(117)	(138)
Charge relating to TSB disposal	**–**	(660)	–
Payment protection insurance provision	**–**	(1,400)	(2,600)
Other conduct provisions	**(460)**	(435)	(402)
Amortisation of purchased intangibles	**(168)**	(164)	(178)
Profit before tax – statutory	**2,454**	1,193	451

Asset sales

Asset sales comprise the gains and losses on asset disposals (half-year to 30 June 2016: gain of £335 million; half-year to 30 June 2015: loss of £52 million), principally of assets which were outside of the Group's risk appetite; the gain in the half-year to 30 June 2016 includes the gain of £484 million on the sale of the Group's investment in Visa Europe.

Enhanced Capital Notes

The loss relating to the ECNs in the first half of 2016 was £790 million, representing the write-off of the embedded derivative and the premium paid on the redemption of the remaining notes completed in the first quarter of 2016.

Liability management

Gains of £146 million arose in the half-year to 30 June 2016 (half-year to 30 June 2015: losses of £6 million) on transactions undertaken as part of the Group's management of its wholesale funding and capital.

Own debt volatility

Own debt volatility includes a £59 million gain (half-year to 30 June 2015: gain of £53 million) relating to the change in fair value of the small proportion of the Group's wholesale funding which was designated at fair value at inception.

Other volatile items

Other volatile items includes the change in fair value of interest rate derivatives and foreign exchange hedges in the banking book not mitigated through hedge accounting, resulting in a gain of £30 million (a gain of £5 million arose in the first half of 2015). Other volatile items also include a negative net derivative valuation adjustment of £80 million (half-year to 30 June 2015: gain of £31 million), reflecting movements in the market implied credit risk associated with customer derivative balances.

Volatility relating to the insurance business

The Group's statutory profit before tax is affected by insurance volatility caused by movements in financial markets generating a variance against expected returns, and policyholder interests volatility, which primarily reflects the gross up of policyholder tax included in the Group tax charge. Volatility relating to the insurance business reduced the Group's statutory profit by £372 million in the first half of 2016; this compares to positive insurance volatility of £18 million in the first half of 2015.

LLOYDS BANKING GROUP PLC

GROUP PROFIT RECONCILIATIONS (continued)

Volatility comprises the following:

	Half-year to 30 June 2016 £m	Half-year to 30 June 2015 £m	Half-year to 31 Dec 2015 £m
Insurance volatility	**(328)**	(109)	(194)
Policyholder interests volatility	**(10)**	83	4
Total volatility	**(338)**	(26)	(190)
Insurance hedging arrangements	**(34)**	44	67
Total	**(372)**	18	(123)

Insurance volatility

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

The expected gross investment returns used to determine the underlying profit of the business are based on prevailing market rates and published research into historical investment return differentials for the range of assets held. Where appropriate, rates are updated throughout the year to reflect changing market conditions and changes in the asset mix. The rates used for calculating these expected returns are an average of the 15 year swap rate over the preceding 12 months and where appropriate, rates are updated throughout the year to reflect changing market conditions. The negative insurance volatility during the period ended 30 June 2016 of £328 million primarily reflects a widening of credit spreads and low returns on cash investments.

Policyholder interests volatility

Accounting standards require that tax on policyholder investment returns should be included in the Group's tax charge rather than being offset against the related income. The result is, therefore, to either increase or decrease profit before tax with a related change in the tax charge. Timing and measurement differences exist between provisions for tax and charges made to policyholders. Consistent with the expected approach taken in respect of insurance volatility, differences in the expected levels of the policyholder tax provision and policyholder charges are adjusted through policyholder interests volatility. In the first half of 2016, the statutory results before tax included a debit to other income which relates to policyholder interests volatility totalling £10 million (first half of 2015: credit of £83 million) relating to offsetting movements in equity, bond and gilt returns.

Insurance hedging arrangements

The Group purchased put option contracts in 2016 to protect against deterioration in equity market conditions and the consequent negative impact on the value of in-force business on the Group balance sheet. These were financed by selling some upside potential from equity market movements. On a mark-to-market basis a charge of £34 million was recognised in relation to these contracts in the first half of 2016.

LLOYDS BANKING GROUP PLC

GROUP PROFIT RECONCILIATIONS (continued)

Fair value unwind

The statutory (IFRS) results include the impact of the acquisition-related fair value adjustments arising from the acquisition of HBOS in 2009; these adjustments affect a number of line items.

The principal financial effects of the fair value unwind are to reflect the effective interest rates applicable at the date of acquisition, on assets and liabilities that were acquired at values that differed from their original book value, and to recognise the reversal of credit and liquidity risk adjustments as underlying instruments mature or become impaired. Generally, this leads to higher interest expense as the value of HBOS's own debt accretes to par and a lower impairment charge reflecting the impact of acquisition balance sheet valuation adjustments.

Restructuring and TSB costs

Restructuring costs in the half-year to 30 June 2016 were £307 million and included severance related costs of the Simplification programme together with £60 million relating to work on implementing the ring-fencing requirements. In the half-year to 30 June 2015 Simplification programme costs were £32 million and TSB build and dual running costs were £85 million.

Payment protection insurance (PPI)

No further provision has been taken for PPI, where complaint levels over the first half of 2016 have been around 8,500 per week on average, broadly in line with expectations. The Group's current PPI provision reflects the Group's interpretation of the Financial Conduct Authority's (FCA) consultation paper regarding a potential time bar, the Plevin case and the expected conclusion by mid-2018. The Group awaits the FCA's final decision however, should the time bar be longer than the proposed two years or the FCA's final decision be significantly delayed, then the Group may need to reassess its provision.

Other conduct provisions

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

Amortisation of purchased intangibles

A total of £4,650 million of customer-related intangibles, brands, core deposit intangibles and purchased credit card relationships were recognised on the acquisition of HBOS in 2009 and these are being amortised over their estimated useful lives, where this has been determined to be finite. This has resulted in a charge of £168 million in the half-year to 30 June 2016 (half-year to 30 June 2015: £164 million).

The customer-related intangibles include customer lists and the benefits of customer relationships that generate recurring income. The purchased credit card relationships represent the benefit of recurring income generated from the portfolio of credit cards purchased and the core deposit intangible is the benefit derived from a large stable deposit base that has low interest rates.

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LLOYDS BANKING GROUP PLC

DIVISIONAL HIGHLIGHTS

RETAIL

Retail offers a broad range of financial service products, including current accounts, savings and mortgages, to UK personal customers, including Wealth and small business customers. It is also a distributor of insurance, and a range of long-term savings and investment products. Our aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value to customers, and by providing them with greater choice and flexibility. We will maintain our multi-brand and multi-channel strategy and continue to simplify the business and provide more transparent products, helping to improve service levels and reduce conduct risks.

Progress against strategic initiatives

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

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

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

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

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

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

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

  – In March, Halifax became one of the first high street banks to offer Video Mortgage Interviews for customers from the comfort of their own home.

    o So far over 1,000 interviews have taken place, with record customer satisfaction levels, 98 per cent of customers rated the service as Excellent or Good, NPS average of 78 per cent.

Financial performance

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

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

- Other income in line with 2015.

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

- Impairment increased by £28 million to £162 million.

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

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

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

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LLOYDS BANKING GROUP PLC

RETAIL (continued)

	Half-year to 30 June 2016 £m	Half-year to 30 June 2015[1] £m	*Change %*	Half-year to 31 Dec 2015[1] £m	*Change %*
Net interest income	**3,296**	3,364	*(2)*	3,300	–
Other income	**558**	554	*1*	561	*(1)*
Total income	**3,854**	3,918	*(2)*	3,861	–
Operating costs	**(2,144)**	(2,181)	*2*	(2,158)	*1*
Operating lease depreciation	**–**	–		–	
Impairment	**(162)**	(134)	*(21)*	(215)	*25*
Underlying profit	**1,548**	1,603	*(3)*	1,488	*4*
Banking net interest margin	**2.23%**	2.25%	*(2)bp*	2.20%	*3bp*
Average interest-earning banking assets	**£305.0bn**	£307.4bn	*(1)*	£306.6bn	*(1)*
Asset quality ratio	**0.11%**	0.09%	*2bp*	0.14%	*(3)bp*
Return on risk-weighted assets	**5.70%**	5.94%	*(24)bp*	5.50%	*20bp*
Return on assets	**1.02%**	1.05%	*(3)bp*	0.96%	*6bp*

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

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

LLOYDS BANKING GROUP PLC

COMMERCIAL BANKING

Commercial Banking has been supporting British business for over 250 years. It has a client-led, low risk, capital efficient strategy, helping UK-based clients and international clients with a link to the UK. Through our four client facing divisions – SME, Mid Markets, Global Corporates and Financial Institutions – we provide clients with a range of products and services such as lending, transactional banking, working capital management, risk management, debt capital markets services, as well as access to private equity through Lloyds Development Capital.

Progress against strategic initiatives

- Good progress against strategic initiatives has delivered underlying profit growth and increased returns.
- Remain committed to supporting SME and Mid Market companies in the UK, increasing lending by £2 billion year-on-year and providing UK Manufacturers with over £500 million of funding support in 2016.
- The Financial Institution franchise has delivered solid income growth across a wide product set.
- Strengthened the balance sheet in Global Corporates through disciplined capital usage and strong deposit growth.
- Reduced onboarding times and enhanced client analytics, allowing relationship managers to spend more time with clients and offer better quality support.
- Continued to help Britain prosper, facilitating over £7.9 billion of financing in the first half of 2016 to support UK government infrastructure projects, including the construction of the Beatrice Offshore Wind Farm that is expected to power more than 470,000 homes, create c.5,000 new jobs and provide significant long-term economic benefits to the UK.
- Awarded Business Bank of the Year at the FD’s excellence Awards for the 12th consecutive year.

Financial performance

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

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

- Other income decrease largely driven by lower capital market volumes.

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

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

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

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

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

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

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

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LLOYDS BANKING GROUP PLC

COMMERCIAL BANKING (continued)

	Half-year to 30 June 2016	Half-year to 30 June 2015[1]	***Change***	Half-year to 31 Dec 2015[1]	***Change***
	£m	£m	*%*	£m	*%*
Net interest income	**1,306**	1,266	***3***	1,310	***–***
Other income	**982**	1,027	***(4)***	1,045	***(6)***
Total income	**2,288**	2,293	***–***	2,355	***(3)***
Operating costs	**(1,035)**	(1,059)	***2***	(1,103)	***6***
Operating lease depreciation	**(52)**	(14)		(16)	
Impairment release/(charge)	**35**	(8)		30	***17***
Underlying profit	**1,236**	1,212	***2***	1,266	***(2)***
Banking net interest margin	**3.18%**	2.85%	***33bp***	3.10%	***8bp***
Average interest-earning banking assets	**£88.1bn**	£91.1bn	***(3)***	£88.9bn	***(1)***
Asset quality ratio	**(0.06)%**	0.04%	***(10)bp***	(0.02)%	***(4)bp***
Return on risk-weighted assets	**2.42%**	2.31%	***11bp***	2.43%	***(1)bp***
Return on assets	**1.31%**	1.08%	***23bp***	1.38%	***(7)bp***

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

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

LLOYDS BANKING GROUP PLC

CONSUMER FINANCE

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

Progress against strategic initiatives

· Creating the best customer experience

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

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

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

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

· Becoming simpler and more efficient

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

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

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

· Delivering sustainable growth

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

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

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

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

Financial performance

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

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

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

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

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

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

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

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

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LLOYDS BANKING GROUP PLC

CONSUMER FINANCE (continued)

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

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

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

LLOYDS BANKING GROUP PLC

INSURANCE

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

Progress against strategic initiatives

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

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

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

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

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

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

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

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

Financial performance

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

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

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

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

Capital

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

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LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Performance summary

	Half-year to 30 June 2016	Half-year to 30 June 2015	***Change***	Half-year to 31 Dec 2015	***Change***
	£m	£m	*%*	£m	*%*
Net interest income	**(80)**	(73)	***(10)***	(90)	***11***
Other income	**921**	1,025	***(10)***	802	***15***
Total income	**841**	952	***(12)***	712	***18***
Operating costs	**(395)**	(368)	***(7)***	(334)	***(18)***
Underlying profit	**446**	584	***(24)***	378	***18***
Life and pensions sales (PVNBP)[1]	**4,791**	5,837	***(18)***	3,623	***32***
General Insurance total GWP[2]	**555**	561	***(1)***	587	***(5)***
General Insurance combined ratio	**89%**	73%	***16pp***	83%	***6pp***
Solvency II ratio	**144%**	n/a		151%	***(7pp)***

[1] Present value of new business premiums relating to With-Profits fund annuity transfer sales were £2,386 million in 2015 and £243 million in 2016.
[2] Gross written premiums.

Profit by product group

	Half-year to 30 June 2016				
	New business income	Existing business income	**Total income**	Half-year to 30 June 2015	Half-year to 31 Dec 2015
	£m	£m	**£m**	£m	£m
Corporate pensions	69	67	**136**	164	151
Bulk annuities	84	6	**90**	98	27

Planning and retirement	58	47	**105**	69	65
Protection	8	17	**25**	27	22
Longstanding LP&I	3	200	**203**	223	253
	222	337	**559**	581	518
Life and pensions experience and other items			**124**	151	84
General insurance			**168**	192	131
NII and free asset return			**(10)**	28	(21)
Total costs			**(395)**	(368)	(334)
Underlying profit			**446**	584	378

Presentation of profit by product group revised to reflect updated business units within Insurance. Full 2015 comparatives can be found on the Lloyds Banking Group Investor Relations website.

Life and pensions new and existing business income has decreased by £22 million with an increase in new business income of £18 million more than offset by a reduction in existing business income. The increase in new business income was driven by securing three bulk transactions in the first half of 2016, growth in Planning and retirement and Protection and a stable performance in Corporate pensions. This has more than offset lower income from the transfer of With-Profits fund annuities. Existing business income has decreased by £40 million, primarily driven by a reduction in the expected rate of return used to calculate life and pensions income.

There was a net benefit of £124 million in the first half of 2016 as a result of experience and other items. This included a £184 million benefit following the addition of a new death benefit to legacy pension contracts to align terms with other pensions products, partly offset by the effect of recent reforms on activity within the pensions market. The net benefit of £151 million in the first half of 2015 primarily reflected the significant benefits arising from the acquisition of a portfolio of low risk higher yielding assets to match long duration liabilities and benefits from changes to longevity assumptions.

General Insurance income net of claims has fallen by £24 million with income growth being more than offset by higher claims as a result of adverse weather in the first half of 2016. Excluding weather related claims income has increased 5 per cent.

LLOYDS BANKING GROUP PLC

RUN-OFF AND CENTRAL ITEMS

RUN-OFF

	Half-year to 30 June 2016 £m	Half-year to 30 June 2015 £m	***Change %***	Half-year to 31 Dec 2015 £m	***Change %***
Net interest income	**(59)**	(19)		(69)	***14***
Other income	**78**	105	***(26)***	40	***95***
Total income	**19**	86	***(78)***	(29)	
Operating costs	**(38)**	(74)	***49***	(76)	***50***
Operating lease depreciation	**(8)**	(7)	***(14)***	(7)	***–***
Impairment	**10**	32	***(69)***	(40)	
Underlying (loss) profit	**(17)**	37		(152)	***(89)***

	At 30 June 2016 £bn	At 31 Dec 2015 £bn	***Change %***
Loans and advances to customers	**10.4**	10.3	***1***
Total assets	**12.2**	12.2	***–***
Risk-weighted assets	**9.6**	10.2	***(6)***

- Run-off represents around 2 per cent of the Group's loans and advances to customers and less than 5 per cent of risk-weighted assets.
- The lower income and costs reflect the reduction in the run-off portfolio.

CENTRAL ITEMS

Half-year to	Half-year to 30 June	Half-year to 31 Dec

	30 June 2016	2015	2015
	£m	£m	£m
Total income	**221**	36	140
Costs	**37**	38	(19)
Impairment	**–**	(1)	3
Underlying profit	**258**	73	124

- Central items includes income and expenditure not attributed to divisions, including the costs of certain central and head office functions.

- Total income has increased largely due to the under recovery of funding and capital related costs from divisions in the first half of 2015.

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RISK MANAGEMENT

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, 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 2015 Annual Report and Accounts, with any quantitative disclosures updated herein.

The Group has already considered many of the potential implications following the UK's vote to leave the European Union and will now develop this work in greater detail to assess the impact to its customers, colleagues and products – as well as all legal, regulatory, tax, finance and capital implications.

Credit risk – The risk that customers to whom the Group has lent money or other counterparties with whom the Group has contracted, fail to meet their financial obligations, resulting in loss to the Group. Adverse changes in the economic and market environment or the credit quality of the Group's counterparties and customers could reduce asset values and potentially increase write-downs and allowances for impairment losses, thereby adversely impacting profitability.

Conduct risk – The Group faces significant potential conduct risks, 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.

Market risk – The risk that the Group's capital or earnings profile is affected by adverse market movements, in particular interest rates and credit spreads in the Banking business, equity and credit spreads in the Insurance business, and credit spreads in the Group's Defined Benefit Pension Schemes.

Operational risk – Significant operational risks which may result in financial loss, disruption or damage to the reputation of the Group, including the availability, resilience and security of core IT systems and the potential for failings in customer processes.

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

Funding and liquidity risk – The risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost.

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

Governance risk – Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from the embedding of the Senior Managers and Certification Regime (SM&CR) and the requirement to ring-fence core UK financial services and activities from January 2019.

People risk – Key people risks include the risk that the Group fails to lead responsibly in an increasingly competitive marketplace, particularly with the introduction of the SM&CR in 2016. This may dissuade capable individuals from taking up senior positions within the industry.

Insurance risk – Key insurance risks within the Insurance business are longevity, persistency and property insurance. Longevity risk is increasing following entry into the bulk annuity market at the end of 2015. Longevity is also the key insurance risk in the Group's Defined Benefit Pension Schemes.

LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO

Overview

- Asset quality remains strong with portfolios continuing to benefit from the Group's effective risk management and the continued low interest rates.

- The impairment charge for the first half of 2016 was £245 million, 37 per cent higher than the first half of 2015. Gross charges remained broadly flat with the increase largely due to a reduction in the level of provision releases and lower write-backs from debt sales.

- The asset quality ratio was 11 basis points in the first half of 2016 compared with 9 basis points in the first half of 2015, and the gross asset quality ratio (excluding releases and write-backs) was stable at 26 basis points compared with 25 basis points for the half year to 30 June 2015.

- Impaired loans as a percentage of closing loans and advances reduced to 2.0 per cent at 30 June 2016, from 2.1 per cent at 31 December 2015, with impaired loans reducing by £277 million to £9,313 million during the period, mainly due to continued reductions in the Commercial Banking and Consumer Finance portfolios.

- The Group now expects the asset quality ratio for the 2016 full year to be less than 20 basis points.

Low risk culture and prudent risk appetite

- The Group continues to conservatively manage its book, with the portfolios benefiting from the focus on credit at origination and a prudent through the cycle approach to credit risk appetite. The changing global economic outlook has created uncertainty and market volatility and raised credit and economic concerns. The Group's portfolios are well positioned against this uncertainty. The Group continues to carefully review external conditions, taking mitigating actions as required to manage its risk accordingly.

- The Group is delivering sustainable lending growth by maintaining its lower risk origination discipline and underwriting standards despite terms and conditions in some of the Group's markets being impacted by increased competition and uncertainty in some sectors.

- Sector concentrations within the lending portfolios are closely monitored and controlled, with mitigating actions taken where appropriate. Sector and product caps limit exposure to certain higher risk sectors and asset classes.

- The average indexed LTV of the Retail mortgages portfolio at 30 June 2016 was 43.2 per cent (31 December 2015: 46.1 per cent). The percentage of closing loans and advances with an indexed LTV greater than 100 per cent was 0.9 per cent (31 December 2015: 1.1 per cent).

- The Group continues with its low risk approach to its UK Direct Real Estate sector. Gross drawn UK real estate lending has reduced by c.55 per cent from £43.9 billion in December 2010 to £19.8 billion at 30 June 2016, including core Commercial Banking lending of £18.9 billion. There is also a further £0.5 billion booked in the Islands commercial business. The Group's significantly reduced legacy Run-off direct real estate portfolio has continued to fall to £0.9 billion at 30 June 2016, and now represents a very modest element of the total UK Direct Real Estate lending portfolio. This element is performing acceptably and is impaired as appropriate. Overseas direct real estate lending is now de minimis.

- The Group's credit processes and controls ensure effective risk management, including early identification and management of potential concern customers and counterparties. Our approach of through the cycle origination has helped ensure our portfolios enter this period of uncertainty in a strong position.

- Run-off net external assets stood at £12,158 million during the first half of 2016. The portfolio represents only 2.3 per cent of the overall Group's loans and advances (31 December 2015: 2.3 per cent).

CREDIT RISK PORTFOLIO (continued)

Impairment charge by division

	Half-year to 30 June 2016 £m	Half-year to 30 June 2015[1] £m	***Change since 30 June 2015 %***	Half-year to 31 Dec 2015[1] £m
Retail:				
Secured	**32**	49	***35***	49
Overdrafts	**120**	74	***(62)***	155
Other	**10**	11	***9***	11
	162	134	***(21)***	215
Commercial Banking:				
SME	**(5)**	(4)	***25***	(18)
Other	**(30)**	12		(12)
	(35)	8		(30)
Consumer Finance:				
Credit Cards	**59**	21		108
Loans	**42**	28	***(50)***	55
UK Motor Finance[2]	**28**	21	***(33)***	1
Europe[3]	**(1)**	(2)	***(50)***	3
	128	68	***(88)***	167
Run-off:				
Ireland retail	**–**	(2)		(3)
Ireland corporate and CRE	**(7)**	75		(3)
Corporate real estate and other corporate	**9**	(52)		73
Specialist finance	**(13)**	(25)	***(48)***	(20)
Other	**1**	(28)		(7)
	(10)	(32)	***(69)***	40
Central items	**–**	1		(3)
Total impairment charge	**245**	179	***(37)***	389
Asset quality ratio	**0.11%**	0.09%	***2bp***	0.19%
Gross asset quality ratio	**0.26%**	0.25%	***1bp***	0.31%

1 Restated. See basis of presentation on the inside front cover.
2 UK Motor Finance comprises the UK motor finance portfolios, principally Black Horse and Lex Autolease.
3 Europe comprises Netherlands mortgages and German Consumer Finance products.

Total impairment charge comprises:

	Half-year to 30 June 2016 £m	Half-year to 30 June 2015 £m	***Change since 30 June 2015 %***	Half-year to 31 Dec 2015 £m
Loans and advances to customers	**257**	198	***(30)***	423
Debt securities classified as loans and receivables	**–**	(2)		–
Available-for-sale financial assets	**–**	–		4
Other credit risk provisions	**(12)**	(17)	***(29)***	(38)
Total impairment charge	**245**	179	***(37)***	389

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LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Group impaired loans and provisions

At 30 June 2016	Loans and advances to customers	Impaired loans	Impaired loans as % of closing advances	Impairment provisions[1]	Impairment provisions as % of impaired loans[2]
	£m	£m	%	£m	%
Retail:					
Secured	**297,350**	**3,909**	**1.3**	**1,442**	**36.9**
Overdrafts	**1,957**	**182**	**9.3**	**84**	**80.8**
Other	**3,023**	**76**	**2.5**	**35**	**70.0**
	302,330	**4,167**	**1.4**	**1,561**	**38.4**
Commercial Banking:					
SME	**30,143**	**1,036**	**3.4**	**188**	**18.1**
Other	**72,617**	**1,317**	**1.8**	**609**	**46.2**
	102,760	**2,353**	**2.3**	**797**	**33.9**
Consumer Finance:					
Credit Cards	**9,561**	**330**	**3.5**	**148**	**81.3**
Loans	**7,745**	**298**	**3.8**	**92**	**82.9**
UK Motor Finance[3]	**10,892**	**109**	**1.0**	**101**	**92.7**
Europe[4]	**5,874**	**40**	**0.7**	**21**	**52.5**
	34,072	**777**	**2.3**	**362**	**81.9**
Run-off:					
Ireland retail	**4,472**	**146**	**3.3**	**135**	**92.5**
Ireland corporate and CRE	**23**	**2**	**8.7**	**–**	
Corporate real estate and other corporate	**1,693**	**1,381**	**81.6**	**734**	**53.1**
Specialist finance	**4,023**	**383**	**9.5**	**187**	**48.8**
Other	**1,284**	**104**	**8.1**	**80**	**76.9**
	11,495	**2,016**	**17.5**	**1,136**	**56.3**
Reverse repos and other items[5]	**6,473**	**–**		**–**	
Total gross lending	**457,130**	**9,313**	**2.0**	**3,856**	**43.5**
Impairment provisions	**(3,856)**				
Fair value adjustments[6]	**(241)**				

Total Group	**453,033**

1 Impairment provisions include collective unidentified impairment provisions.

2 Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries (£78 million in Retail Overdrafts, £26 million in Retail Other, £148 million in Consumer Finance Credit Cards and £187 million in Consumer Finance Loans).

3 UK Motor Finance comprises the UK motor finance portfolios, principally Black Horse and Lex Autolease.

4 Europe comprises Netherlands mortgages and German Consumer Finance products.

5 Includes £6.1 billion of lower risk loans sold by Commercial Banking and Retail to Insurance to back annuitant liabilities.

6 The fair value adjustments relating to loans and advances were those required to reflect the HBOS assets in the Group's consolidated financial records at their fair value and took into account both the expected losses and market liquidity at the date of acquisition. The unwind relating to future impairment losses requires significant management judgement to determine its timing which includes an assessment of whether the losses incurred in the current period were expected at the date of acquisition and assessing whether the remaining losses expected at date of the acquisition will still be incurred. The element relating to market liquidity unwinds to the income statement over the estimated expected lives of the related assets, although if an asset is written-off or suffers previously unexpected impairment then this element of the fair value will no longer be considered a timing difference (liquidity) but permanent (impairment). The fair value unwind in respect of impairment losses incurred was £27 million for the period ended 30 June 2016 (30 June 2015: £37 million). The fair value unwind in respect of loans and advances is expected to continue to decrease in future years as fixed-rate periods on mortgages expire, loans are repaid or written-off, and will reduce to zero over time.

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LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Group impaired loans and provisions (continued)

At 31 December 2015[1]	Loans and advances to customers	Impaired loans	Impaired loans as % of closing advances	Impairment provisions[2]	Impairment provisions as % of impaired loans[3]
	£m	£m	%	£m	%
Retail:					
Secured	302,413	3,818	1.3	1,431	37.5
Overdrafts	2,028	211	10.4	95	78.5
Other	3,059	83	2.7	38	69.1
	307,500	4,112	1.3	1,564	39.2
Commercial Banking:					
SME	29,393	1,149	3.9	213	18.5
Other	73,689	1,394	1.9	878	63.0
	103,082	2,543	2.5	1,091	42.9
Consumer Finance:					
Credit Cards	9,425	366	3.9	153	81.8
Loans	7,889	367	4.7	102	83.6
UK Motor Finance[4]	9,582	134	1.4	90	67.2
Europe[5]	4,931	43	0.9	22	51.2
	31,827	910	2.9	367	75.5
Run-off:					
Ireland retail	4,040	132	3.3	120	90.9
Ireland corporate and CRE	37	5	13.5	–	
Corporate real estate and other corporate	1,873	1,410	75.3	745	52.8
Specialist finance	4,190	361	8.6	189	52.4
Other	1,282	117	9.1	96	82.1
	11,422	2,025	17.7	1,150	56.8
Reverse repos and other items[6]	5,798				
Total gross lending	459,629	9,590	2.1	4,172	46.1
Impairment provisions	(4,172)				

Fair value adjustments	(282)
Total Group	455,175

[1] Restated. See basis of presentation on the inside front cover.
[2] Impairment provisions include collective unidentified impairment provisions.
[3] Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries (£90 million in Retail Overdrafts, £28 million in Retail Other, £179 million in Consumer Finance Credit Cards and £245 million in Consumer Finance Loans).
[4] UK Motor Finance comprises the UK motor finance portfolios, principally Black Horse and Lex Autolease.
[5] Europe comprises Netherlands mortgages and German Consumer Finance products.
[6] Includes £5.7 billion of lower risk loans sold by Commercial Banking and Retail to Insurance to back annuitant liabilities.

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LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Retail

- The impairment charge was £162 million in the first half of 2016, an increase of 21 per cent against the first half of 2015.

- The asset quality ratio increased to 0.11 per cent in the first half of 2016 compared to 0.09 per cent in the first half of 2015.

- Impaired loans increased by £55 million in the first half of 2016 to £4,167 million which represented 1.4 per cent of closing loans and advances to customers (31 December 2015: 1.3 per cent).

- Impairment provisions as a percentage of impaired loans decreased to 38.4 per cent from 39.2 per cent at the end of 2015.

Secured

- The impairment charge reduced by £17 million in the first half of 2016.

- Loans and advances reduced by 1.7 per cent on the Secured book to £297 billion, with reductions in both the Mainstream and Buy-to-let portfolios. The closed Specialist portfolio has continued to run-off, reducing by 5.1 per cent to £19 billion.

- Impaired loans increased by £91 million to £3,909 million in the first half of 2016. Impairment provisions as a percentage of impaired loans decreased to 36.9 per cent from 37.5 per cent at 31 December 2015.

- The value of mortgages greater than three months in arrears (excluding repossessions) decreased by £19 million to £5,886 million at 30 June 2016 (31 December 2015: £5,905 million).

- The average indexed LTV of the mortgages portfolio at 30 June 2016 decreased to 43.2 per cent compared with 46.1 per cent at 31 December 2015. The percentage of closing loans and advances with an indexed LTV in excess of

100 per cent decreased to 0.9 per cent at 30 June 2016, compared with 1.1 per cent at 31 December 2015.

- The average LTV for new mortgages written in the first half of 2016 was 64.3 per cent compared with 64.7 per cent for 2015.

- On the Buy-to-let book, new business quality remains strong with affordability assessments based on stressed rates.

Overdrafts

- The impairment charge was £120 million in the first half of 2016, an increase of 62 per cent against the first half of 2015.

- Impaired loans reduced by £29 million in the first half of 2016 to £182 million representing 9.3 per cent of closing loans and advances to customers, compared with 10.4 per cent at 31 December 2015.

Retail secured and unsecured loans and advances to customers	**At 30 June 2016**	At 31 Dec 2015[1]
	£m	£m
Mainstream	**223,887**	227,267
Buy-to-let	**54,914**	55,598
Specialist[2]	**18,549**	19,548
	297,350	302,413
Overdrafts	**1,957**	2,028
Wealth	**2,138**	2,164
Retail Business Banking	**885**	895
	4,980	5,087
Total	**302,330**	307,500

1 Restated. See basis of presentation on the inside front cover.
2 Specialist lending has been closed to new business since 2009.

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LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Retail (continued)

Retail mortgages greater than three months in arrears (excluding repossessions)

	Number of cases		Total mortgage accounts %		Value of loans[1]		Total mortgage balances %	
	June 2016 Cases	Dec 2015 Cases	**June 2016 %**	Dec 2015 %	**June 2016 £m**	Dec 2015 £m	**June 2016 %**	Dec 2015 %
Mainstream	**34,686**	34,850	**1.6**	1.6	**3,778**	3,803	**1.7**	1.7
Buy-to-let	**5,181**	5,021	**1.1**	1.0	**649**	626	**1.2**	1.1
Specialist	**8,797**	8,777	**6.7**	6.4	**1,459**	1,476	**7.9**	7.6
Total	**48,664**	48,648	**1.8**	1.7	**5,886**	5,905	**2.0**	2.0

1 Value of loans represents total gross book value of mortgages more than three months in arrears.

The stock of repossessions decreased to 599 cases at 30 June 2016 compared to 654 cases at 31 December 2015.

Period end and average LTVs across the Retail mortgage portfolios

At 30 June 2016	**Mainstream** %	**Buy-to-let** %	**Specialist** %	**Total** %	**Unimpaired** %	**Impaired** %
Less than 60%	**59.1**	**55.3**	**54.1**	**58.1**	**58.3**	**38.7**
60% to 70%	**18.6**	**24.9**	**17.3**	**19.7**	**19.6**	**18.4**
70% to 80%	**13.2**	**11.4**	**13.6**	**12.9**	**12.9**	**15.0**
80% to 90%	**6.8**	**6.3**	**8.5**	**6.8**	**6.8**	**11.3**
90% to 100%	**1.6**	**1.3**	**2.8**	**1.6**	**1.6**	**6.7**

Greater than 100%	**0.7**	**0.8**	**3.7**	**0.9**	**0.8**	**9.9**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Outstanding loan value (£m)	**223,887**	**54,914**	**18,549**	**297,350**	**293,441**	**3,909**
Average loan to value:[1]						
Total book	**41.0**	**52.7**	**49.2**	**43.2**		
New lending	**64.8**	**62.3**	**n/a**	**64.3**		
Impaired	**51.3**	**69.6**	**62.5**	**55.6**		

At 31 December 2015	Mainstream %	Buy-to-let %	Specialist %	Total %	Unimpaired %	Impaired %
Less than 60%	52.2	45.4	43.7	50.4	50.7	30.9
60% to 70%	19.1	26.8	19.7	20.6	20.6	17.5
70% to 80%	15.5	15.0	15.5	15.4	15.4	16.9
80% to 90%	9.0	8.0	11.6	9.0	8.9	13.3
90% to 100%	3.2	3.9	5.5	3.5	3.4	9.5
Greater than 100%	1.0	0.9	4.0	1.1	1.0	11.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
Outstanding loan value (£m)	227,267	55,598	19,548	302,413	298,595	3,818
Average loan to value:[1]						
Total book	43.6	56.3	53.3	46.1		
New lending	65.2	63.0	n/a	64.7		
Impaired	55.6	74.6	66.8	60.0		

[1] Average loan to value is calculated as total gross loans and advances as a percentage of the indexed total collateral of these loans and advances.

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LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Commercial Banking

- There was a net impairment release of £35 million in the first half of 2016, compared to a charge of £8 million in the first half of 2015, primarily driven by write-backs and provision releases. The portfolio continues to benefit from effective risk management and the continued low interest rate environment.

- The credit quality of the portfolio and new business remains good.

- Impaired loans reduced by 7.5 per cent to £2,353 million at 30 June 2016 compared with £2,543 million at 31 December 2015 and as a percentage of closing loans and advances reduced to 2.3 per cent from 2.5 per cent at 31 December 2015.

- Impairment provisions reduced to £797 million at 30 June 2016 (31 December 2015: £1,091 million) and includes collective unidentified impairment provisions of £197 million (31 December 2015: £229 million). Provisions as a percentage of impaired loans reduced from 42.9 per cent to 33.9 per cent during the first half of 2016, heavily influenced by the net movement of two material cases with different coverage levels that has lowered the portfolio average.

- The Group remains disciplined within its low risk appetite approach. Given the quality of the portfolios, the approach to the management of credit and our robust pre and ongoing post EU referendum preparations and mitigating actions, the portfolios are well positioned to face the uncertain economic outlook.

- The Group manages and limits exposure to certain sectors and asset classes, and closely monitors credit quality, sector and single name concentrations. This together with our conservative through the cycle risk appetite approach means our portfolios are well positioned.

SME

- The SME Banking portfolio continues to grow within prudent credit risk appetite parameters.

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As a result of the Group's customer driven relationship management, net lending has increased 4 per cent since June 2015. This also reflects the Group's commitment to the UK economy.

- Portfolio credit quality has remained stable or improved across all key metrics.

- There was a net impairment release of £5 million in the first half of 2016 compared to a net release of £4 million in the same period during 2015.

Other Commercial Banking

- Other Commercial Banking comprises £72,617 million of gross loans and advances to customers in Mid Markets, Global Corporates and Financial Institutions.

- The Mid Markets portfolio remains UK focused and dependent primarily on the performance of the domestic economy. Whilst a small element of our portfolio, the oil and gas sector has remained under review during the first half of 2016 given the lower oil prices, but no material concerns have been identified to date.

- The Global Corporates portfolio continues to be predominantly investment grade and continues to perform well, with limited downgrades occurring through the first half. We continue to monitor the portfolio closely following the outcome of the EU referendum and the ongoing volatility in commodity prices including in the oil and gas sector.

- The real estate business within the Group's Mid Markets and Global Corporate portfolio is focused on clients operating in the UK commercial property market ranging in size from medium sized private real estate entities up to publicly listed property companies. The market for UK real estate has been buoyant and credit quality remains good with minimal impairments/stressed loans. All asset classes have attracted investment but apprehension, both pre and post the EU referendum result, has created uncertainties around the performance of the sector. Recognising this is a cyclical sector, appropriate caps are in place to control exposure and business propositions continue to be written in line with prudent risk appetite with conservative LTV, strong quality of income and proven management teams.

LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Commercial Banking (continued)

Other Commercial Banking (continued)

- The Financial Institutions portfolio continued to perform well in the first half of 2016 with no material deterioration in credit quality. Overall limits have been relatively stable as we continue to prudently manage the portfolio within our conservative risk appetite and clearly defined sector strategies.

- Financial Institutions serves predominantly investment grade counterparties with whom relationships are either client focused or held to support the Group's funding, liquidity or general hedging requirements.

- The Group continues to adopt a conservative stance across the Eurozone maintaining close portfolio scrutiny and oversight particularly given the current macro environment and horizon risks.

Commercial Banking UK Direct Real Estate

- The Group classifies Direct Real Estate as exposure which is directly supported by cash flows from property activities (as opposed to trading activities, such as hotels, care homes and housebuilders).

- Commercial Banking saw some growth in its UK Direct Real Estate core portfolio during the first half of 2016 with business continuing to be written within conservative risk appetite parameters. Excluding £0.5 billion in the Islands Commercial business, core Commercial Banking UK Direct Real Estate gross lending stood at £18.9 billion at 30 June 2016.

- Approximately 75 per cent of loans and advances to UK Direct Real Estate relate to commercial real estate with the remainder relating to residential real estate. The portfolio continues to be heavily weighted towards investment real estate (c.90 per cent) over development.

- Focus remains on the UK market, on good quality customers, with a proven track record in Real Estate and where cash flows are robust.

- Origination is highly selective with new business written in line with prudent risk appetite with conservative LTV and strong quality of income. Debt service capability and cash flow are key, with the underlying asset valuation seen as the second way out. Transactions must meet maximum LTV and minimum interest cover criteria under our credit policy.

- For the majority of business, LTVs are lower than policy maximums and in SME Banking, variable interest rate business originated must pass a debt service capability requirement which factors in a rise in policy interest rates.

- The Group does not lend to development projects without planning permission being in place and does not lend to start ups, nor hold subordinated debt.

- The LTV profile of the UK Direct Real Estate portfolio in Commercial Banking continues to improve, with over 85 per cent of the >£5 million exposures having an LTV of 70 per cent or less.

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LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Consumer Finance

- Loans and advances increased by £2,245 million to £34,072 million during the first half of 2016, with 58 per cent (£1,310 million) relating to the UK Motor Finance portfolio.

- Impaired loans decreased by £133 million in the first half of 2016, with reductions across all portfolios. Impaired loans as a percentage of closing loans and advances improved to 2.3 per cent (31 December 2015: 2.9 per cent).

- The impairment charge was £128 million in the first half of 2016, an increase of 88 per cent against the first half of 2015. The increase was mostly driven by the Credit cards portfolio. The asset quality ratio was 0.79 per cent in the first half of 2016 (30 June 2015: 0.47 per cent)

- Impairment provisions as a percentage of impaired loans increased to 81.9 per cent (31 December 2015: 75.5 per cent), largely due to the UK Motor Finance book.

Credit cards

- Loans and advances increased by £136 million to £9,561 million during the first half of 2016, with continued franchised new business growth.

- Impaired loans decreased by £36 million in the first half of 2016. Impaired loans as a percentage of closing loans and advances improved to 3.5 per cent (31 December 2015: 3.9 per cent).

- The impairment charge was £59 million in the first half of 2016, reflecting lower debt sale benefits in the first half of 2016 compared to the first half of 2015. Sustained credit quality of new business and close management of risk appetite continues as the business grows.

Loans

- Loans and advances reduced by £144 million to £7,745 million (31 December 2015: £7,889 million).

- Impaired loans decreased by £69 million in the first half of 2016. Impaired loans as a percentage of closing loans and advances improved to 3.8 per cent (31 December 2015: 4.7 per cent).

- The impairment charge was £42 million in the first half of 2016, broadly flat year-on-year excluding the benefits seen in the first half of 2015 relating to a one off increase in recoveries valuations.

UK Motor Finance

- Loans and advances increased by £1,310 million to £10,892 million during the first half of 2016, with 18 per cent of growth within the Jaguar Land Rover business.

- Impaired loans decreased by £25 million in the first half of 2016, mostly driven by a review of impaired balances on the Lex Autolease book.

- The impairment charge increased by £7 million in the first half of 2016, in line with book growth.

Run-off

- The Ireland retail portfolio has increased from £4,040 million at 31 December 2015 to £4,472 million at 30 June 2016 due to the foreign exchange impact of sterling weakening, partly offset by capital repayments.

- The Corporate real estate and other corporate portfolio has continued to reduce in line with expectations. Net loans and advances reduced by £169 million, from £1,128 million at 31 December 2015 to £959 million at 30 June 2016.

- Net loans and advances for the Specialist finance asset based run-off portfolio stood at £3,836 million at 30 June 2016 (gross £4,023 million), and include Ship Finance, Aircraft Finance and Infrastructure, with around half of the remaining lending in the lower risk leasing sector. Including the reducing Treasury Asset legacy investment portfolio, and operating leases, total net external assets reduced to £5,273 million at 30 June 2016 (gross £5,459 million).

LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Forbearance

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. Forbearance policies are disclosed in the Risk Management section of the Group's 2015 Annual Report and Accounts, pages 124 to 126.

Retail forbearance

At 30 June 2016, UK secured loans and advances currently or recently subject to forbearance were 0.8 per cent (31 December 2015: 1.0 per cent) of total UK secured loans and advances. The reduction in forbearance is due to the overall improvement of credit quality in the portfolio.

At 30 June 2016, overdrafts currently or recently subject to forbearance were 3.9 per cent (31 December 2015: 4.3 per cent) of total overdrafts loans and advances.

	Total loans and advances which are forborne[1]		**Total forborne loans and advances which are impaired[1]**		**Impairment provisions as % of loans and advances which are forborne[1]**	
	At June 2016	At Dec 2015	**At June 2016**	At Dec 2015	**At June 2016**	At Dec 2015
UK secured:	**£m**	£m	**£m**	£m	**%**	%
Temporary forbearance arrangements						
Reduced payment arrangements	**333**	414	**39**	41	**6.0**	4.2
Permanent treatments						
Repair and term extensions	**2,180**	2,688	**139**	132	**4.7**	4.2
Total	**2,513**	3,102	**178**	173	**4.9**	4.2
Overdrafts:	**76**	87	**59**	63	**37.4**	35.0

[1] Includes accounts where the customer is currently benefiting from a forbearance treatment or the treatment has recently ended.

Commercial Banking forbearance

At 30 June 2016, £3,223 million (31 December 2015: £3,529 million) of total loans and advances were forborne of which £2,353 million (December 2015: £2,543 million) were impaired. Impairment provisions as a percentage of forborne loans and advances decreased from 30.9 per cent at 31 December 2015 to 24.7 per cent at 30 June 2016.

Unimpaired forborne loans and advances were £870 million at 30 June 2016 (31 December 2015: £986 million). The table below sets out the Group's largest unimpaired forborne loans and advances to commercial customers (exposures over £5 million) as at 30 June 2016 by type of forbearance:

	30 June 2016	31 Dec 2015
Type of unimpaired forbearance:	**£m**	£m
Exposures > £5m[1]		
Covenants	**324**	310
Extensions/alterations	**248**	350
Multiple	**6**	9
	578	669
Exposures < £5m[1]	**292**	317
Total	**870**	986

[1] Material portfolios only.

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LLOYDS BANKING GROUP PLC

CREDIT RISK PORTFOLIO (continued)

Consumer Finance forbearance

At 30 June 2016, loans and advances currently or recently subject to forbearance as a percentage of total loans and advances had reduced on the Consumer Credit Cards (30 June 2016: 2.2 per cent; 31 December 2015: 2.4 per cent) and Loans portfolios (30 June 2016: 0.7 per cent; 31 December 2015: 0.8 per cent). UK Motor Finance Retail loans and advances currently or recently subject to forbearance as a percentage of total loans and advances is stable at 1.4 per cent (31 December 2015: 1.4 per cent).

	Total loans and advances which are forborne[1]		**Total forborne loans and advances which are impaired[1]**		**Impairment provision as % of loans and advances which are forborne[1]**	
	30 June 2016 £m	31 Dec 2015 £m	**30 June 2016 £m**	31 Dec 2015 £m	**30 June 2016 %**	31 Dec 2015 %
Consumer Credit Cards	**202**	225	**111**	120	**27.8**	26.8
UK Motor Finance Retail	**111**	100	**57**	51	**23.6**	25.5
Loans	**51**	60	**47**	56	**48.5**	47.2

[1] Includes accounts where the customer is currently benefiting from a forbearance treatment or the treatment has recently ended.

Run-off forbearance

Ireland retail

At 30 June 2016, £159 million or 3.6 per cent (31 December 2015: £169 million or 4.2 per cent) of Irish retail secured loans and advances were subject to current or recent forbearance. Of this amount £22 million (31 December 2015: £26 million) were impaired.

Ireland commercial real estate and corporate

The Irish Wholesale book (which contained the Commercial Real Estate portfolio), is now effectively exited following completion of the divestment announced on 30 July 2015.

Run-off Corporate real estate, other corporate and Specialist Finance

At 30 June 2016, £1,770 million (31 December 2015: £1,780 million) of total loans and advances were forborne of which £1,764 million (31 December 2015: £1,771 million) were impaired. Impairment provisions as a percentage of forborne loans and advances decreased from 52.5 per cent at 31 December 2015 to 52.0 per cent at 30 June 2016.

Unimpaired forborne loans and advances were £6 million at 30 June 2016 (December 2015: £9 million).

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LLOYDS BANKING GROUP PLC

FUNDING AND LIQUIDITY MANAGEMENT

During the first half of 2016, the Group has maintained its strong funding and liquidity position, with a loan to deposit ratio of 107 per cent, LCR eligible liquid assets exceed total wholesale funding and are broadly six times the level of Money Market funding less than one year to maturity at 30 June 2016. The Group has a diverse funding platform which includes a strong customer deposit base along with wholesale funding comprised of a range of secured and unsecured funding products.

Total funded assets reduced by £2.8 billion to £468.4 billion with loans and advances to customers, reducing by £2.2 billion. Other assets has increased by £23.1 billion to £257.3 billion due to movements in derivative assets and is offset by a similar movement in other liabilities. Total customer deposits increased by £5.0 billion to £423.3 billion at 30 June 2016, largely due to the continued momentum in attracting high quality deposits in SME, Global Corporates and Financial Institutions.

Wholesale funding has increased by £10.7 billion to £130.6 billion, with the volume with a residual maturity less than one year increasing to £51.4 billion (£37.9 billion at 31 December 2015). Deposits from banks have increased by £5.2 billion largely due to an increase in cash margin received from bank counterparties following recent market movements. With the change in deposits from banks and a relative increase in term wholesale funding maturing within the next 12 months, the Group’s term funding ratio (wholesale funding with a remaining life of over one year as a percentage of total wholesale funding) reduced to 61 per cent (68 per cent at 31 December 2015).

During 2016, the Group’s term issuance costs have remained broadly in line with other post-crisis years and significantly lower than levels seen during the economic downturn. The Group’s overall cost of wholesale funding has reduced as more expensive funding raised in previous years mature. The Group’s market capacity for term funding is considered across the planning horizon as part of the funding plan and the Group expects term funding requirements to remain stable.

In 2015, Standard and Poor’s (S&P), Moody’s and Fitch completed their exceptional reviews of Lloyds Bank's ratings following the UK implementation of the EU Bank Recovery and Resolution Directive. In all cases, the major agencies removed or reduced their expectations of government support and recognised the support provided by subordinated debt buffers to senior creditors. Following the June 2016 EU referendum vote, Moody’s revised Lloyds Bank’s rating outlook to Stable from Positive whilst S&P revised the outlook to Negative from Stable. Lloyds Bank's median rating across these agencies remains ‘A+’.

The LCR became the Pillar 1 standard for liquidity in the UK in October 2015. The Group's LCR ratio already exceeds regulatory requirements and is greater than 100 per cent. In addition, the Group has a robust and well governed reporting framework in place for both regulatory reporting and internal management information. The Net Stable Funding Ratio (NSFR) is due to become a minimum standard from January 2018. The Group continues to monitor and expects to meet the requirements once these are confirmed by the PRA.

The combination of a strong balance sheet and access to a wide range of funding markets, including government and central bank schemes, provides the Group with a broad range of options with respect to funding the balance sheet.

LLOYDS BANKING GROUP PLC

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Group funding position

	At 30 June 2016	At 31 Dec 2015	***Change***
	£bn	£bn	*%*
Funding requirement			
Loans and advances to customers	**453.0**	455.2	***–***
Loans and advances to banks[1]	**4.3**	3.4	***26***
Debt securities	**4.0**	4.2	***(5)***
Reverse repurchase agreements	**0.9**	1.0	***(10)***
Available-for-sale financial assets – non-LCR eligible[2]	**1.7**	2.7	***(37)***
Cash and balances at central bank – non-LCR eligible[2]	**4.5**	4.7	***(4)***
Funded assets	**468.4**	471.2	***(1)***
Other assets[4]	**257.3**	234.2	***10***
	725.7	705.4	***3***
On balance sheet LCR eligible liquidity assets			
Cash and balances at central banks[3]	**68.9**	53.7	***28***
Available-for-sale financial assets	**34.2**	30.3	***13***
Held-to-maturity financial assets	**21.5**	19.8	***9***
Trading and fair value through profit and loss	**5.9**	3.0	***97***
Repurchase agreements	**(8.0)**	(5.5)	***45***
	122.5	101.3	***21***
Total Group assets	**848.2**	806.7	***5***
Less: other liabilities[4]	**(245.4)**	(221.5)	***11***
Funding requirement	**602.8**	585.2	***3***
Funded by			
Customer deposits	**423.3**	418.3	***1***
Wholesale funding[5]	**130.6**	119.9	***9***
	553.9	538.2	***3***
Total equity	**48.9**	47.0	***4***
Total funding	**602.8**	585.2	***3***

[1] Excludes £20.8 billion (31 December 2015: £20.8 billion) of loans and advances to banks within the Insurance business and £0.9 billion (31 December 2015: £0.9 billion) of reverse repurchase agreements.

[2] Non-LCR eligible liquid assets comprise a diversified pool of highly rated unencumbered collateral (including retained issuance).

[3] Cash and balances at central banks are combined in the Group's balance sheet.

[4] Other assets and other liabilities primarily include balances in the Group's Insurance business and the fair value of derivative assets and liabilities.

[5] The Group’s definition of wholesale funding aligns with that used by other international market participants; including interbank deposits, debt securities in issue and subordinated liabilities.

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LLOYDS BANKING GROUP PLC

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Reconciliation of Group funding to the balance sheet

At 30 June 2016	**Included in funding analysis**	**Repos and cash collateral received by Insurance**	**Fair value and other accounting methods**	**Balance sheet**
	£bn	**£bn**	**£bn**	**£bn**
Deposits from banks	**13.7**	**9.2**	**0.3**	**23.2**
Debt securities in issue	**95.0**	**–**	**(6.2)**	**88.8**
Subordinated liabilities	**21.9**	**–**	**1.0**	**22.9**
Total wholesale funding	**130.6**	**9.2**		
Customer deposits	**423.3**	**–**	–	**423.3**
Total	**553.9**	**9.2**		

At 31 December 2015	Included in funding analysis	Repos and cash collateral received by Insurance	Fair value and other accounting methods	Balance sheet
	£bn	£bn	£bn	£bn
Deposits from banks	8.5	8.4	–	16.9
Debt securities in issue	88.1	–	(6.0)	82.1
Subordinated liabilities	23.3	–	–	23.3
Total wholesale funding	119.9	8.4		
Customer deposits	418.3	–	–	418.3
Total	538.2	8.4		

Analysis of 2016 total wholesale funding by residual maturity

	Less than one month £bn	**One to three months £bn**	**Three to six months £bn**	**Six to nine months £bn**	**Nine months to one year £bn**	**One to two years £bn**	**Two to five years £bn**	**More than five years £bn**	**Total at 30 June 2016 £bn**	Total at 31 Dec 2015 £bn
Deposits from banks	**11.0**	**1.3**	**0.8**	**0.2**	**0.4**					