ALLIED DOMECQ PLC
Form 6-K
April 21, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

FOR 21 April, 2005

ALLIED DOMECQ PLC
(Exact name of Registrant as specified in its Charter)

ALLIED DOMECQ PLC
(Translation of Registrant's name into English)

The Pavilions
Bridgwater Road
Bedminster Down
Bristol BS13 8AR
England
(Address of Registrant's principal executive offices)

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

Form 20-F [X]   Form 40-F [ ]

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

Yes [ ]   No [X]

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

Exhibit Index

Exhibit No.	Description
Exhibit No. 1	Intermin Results announcement dated 21 April, 2005

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ALLIED DOMECQ REPORTS STRONG EARNINGS GROWTH

Allied Domecq PLC delivered 12% normalised earnings per share growth at constant exchange rates, or 7% growth at reported rates, for the first six months of its financial year. The strong result was generated by good profit growth from the core spirits brands, a 14% increase in trading profit from our premium wine brands and a 36% growth in trading profit in the Quick Service Restaurants division, Dunkin' Brands.

FINANCIAL HIGHLIGHTS

		2005	2004	Growth %	Gr c c
.	Group turnover	(pound) 1,700m	(pound) 1,704m	0	
.	Group trading profit	(pound) 349m	(pound) 337m	4	
.	Group profit before tax	(pound) 285m	(pound) 266m	7	
.	Normalised earnings per share	19.2p	18.0p	7	
.	Dividend	6.5p	5.83p	11	
.	Net cash flow from operating activities	(pound) 225m	(pound) 244m		
.	Free cash flow (after dividends)	(pound) 42m	(pound) 38m		

Figures are stated before goodwill and exceptional items.

BUSINESS HIGHLIGHTS

Figures here and in the Operating and Financial Review are stated before goodwill and exceptional items and comparative information is based on constant exchange rates unless otherwise specified.

Spirits & Wine

- Net turnover up 1%
- Marketing spend up 1%
- Net brand contribution up 2%
- Trading profit up 6%

Core spirits brands

- Volumes up 2%
- Net turnover up 2%
- Marketing spend up 6%
- Net brand contribution up 3%

Premium wine

- Volumes up 2%
- Net turnover up 5%
- Marketing spend up 11%
- Trading profit up 14%

Quick Service Restaurants

- Distribution points up 6%
- System-wide sales up 15%
- QSR turnover up 28%
- Trading profit up 36%

Delivering improved efficiencies and cash flow

- Good operational leverage - Spirits & Wine trading margin up over 110 basis points
- Efficiency improvements - Spirits & Wine overheads reduced by 2%
- Sustained cash generation - (pound)42m free cash flow ((pound)149m before dividends)
- Net debt reduction - Further (pound)118m reduction

Philip Bowman, Chief Executive, said:

"We achieved strong earnings growth in spite of tough trading conditions in many markets. Our performance was led by good growth in the core spirits brands, strong trading in our premium wine brands and another excellent result from Quick Service Restaurants."

"Our core brands continued to benefit from increased marketing investment and innovation as we optimised our investment focus on the core brands and growth markets. Malibu, Maker's Mark, Sauza and Stolichnaya have performed particularly well. We experienced particularly strong growth in the US which has driven trading profit growth of 14% in North America. In spite of more challenging conditions across Western Europe, our focus on reducing costs and optimising our marketing investment delivered trading profit growth of 3% across Europe. In addition, we have significantly strengthened our spirits portfolio with the addition of the distribution rights for Stolichnaya in markets outside the US. This premium vodka fills a portfolio gap and provides us with an important opportunity over the medium term. An improved performance in South Korea and good trading in markets including Greater China delivered turnover and profit growth in Asia Pacific. We remain on track to meet our return on investment targets for wine. Our focus on value improvement in the premium wine brands is delivering tangible results with profits up 14%. We have continued to see excellent profit growth at the Quick Service Restaurants division, Dunkin' Brands, up 36%, driven by strong same store sales growth and new store openings. Across all our businesses, we have continued to see improved operational leverage."

OPERATIONAL HIGHLIGHTS

PORTFOLIO

- Stolichnaya distribution agreement enhances portfolio strength
- Increased investment in core brand marketing
- Refreshed marketing initiatives across several core brands
- Innovation in new flavours for Malibu and Tia Maria
- Greater growth momentum behind core UK and US premium wine markets
- Innovation, same store sales and new store openings drive profit growth at QSR

PRESENCE

- Roll-out of our selection of 'partner of choice' distributors in the US nears completion
- Benefiting from efficiencies in distribution in challenging Western European markets
- Improving distribution strength in emerging markets, e.g. China and Eastern Europe
- Geographic expansion of QSR into Charlotte, Cleveland, Tampa and Cincinnati

PEOPLE

- Strengthened management team with new appointments
- Restructured operations to deliver efficient ways of working

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Internet:
Corporate information can be accessed from the website at www.allieddomecq.com.

Presentation material:
The results presentation will be available on the corporate website from 09.00 (UK time) on Thursday 21 April 2005.

Presentation webcast/audio broadcast:
A live webcast of the presentation to analysts will be available on the investor relations section of www.allieddomecq.com at 09.30 (UK time) on Thursday 21 April. A recording of the webcast will be available from around 14.00 (UK time).

A live audio broadcast of the presentation and question and answer session will also be available. The presentation can be accessed by dialling:

UK:	0800 358 5269
US/Canada:	1 888 495 6452
France:	01 70 99 34 33
Germany:	069 58 99 90 708
International:	+44 (0) 20 7190 1598

Conference call:
A conference call will be held for analysts and investors at 16.00 (UK time) on Thursday 21 April. The call can be accessed by dialling:

UK:	0800 358 5269
US/Canada:	1 888 328 4274
France:	01 70 99 34 33
Germany:	069 58 99 90 708
International:	+44 (0) 20 7190 1598

A recording of the conference call will be available from around 17.00 (UK time) today until 28 April 2005. Call the following numbers to listen to the recording:

UK/Europe:	+44 (0) 20 7154 2833	Access code: 3278212#
US/Canada:	1 800 406 7325	Access code: 3278212#

Photography:
Original high resolution photographs are available to the media free of charge at www.newscast.co.uk +44 (0) 20 7608 1000.

Cautionary statement regarding forward-looking information Some statements in this press release contain "forward-looking" statements as defined in Section 21E of the United States Securities Exchange Act of 1934. They represent our expectations for our business, and involve risks and uncertainties. You can identify these statements by the use of words such as "believes", "expects", "may", "will", "should", "intends", "plans", "anticipates", "estimates" or other similar words. We have based these forward-looking statements on our current expectations and projections about future events. We believe that our expectations and assumptions with respect to these forward-looking statements are reasonable. However, because these forward-looking statements involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control, our actual results or performance may differ materially from those expressed or implied by such forward-looking statements.

Explanatory notes
Comparative information in the Operating and Financial Review is based on constant exchange rates. Net turnover is turnover after deducting excise duties. Profit and normalised earnings are stated before goodwill and exceptional items. Volumes are quoted in nine litre cases unless otherwise specified.

Brands

All brands mentioned in this press release are trademarks and are registered and /or otherwise protected in accordance with applicable law.

OPERATING AND FINANCIAL REVIEW

Summary

At constant currency, normalised earnings per share have grown by 12% and reported normalised earnings per share have increased by 7% to 19.2p. The three key drivers have been:

- The growth of the core brands, which contributed the majority of the incremental Spirits & Wine gross profit;
- The good profit growth of the premium wine brands; and
- The strong growth in Quick Service Restaurants.

From a geographic perspective, the growth in Spirits & Wine profit has been driven by good trading in North America and strong value growth in the premium wine portfolio in the US and UK. We also made progress in key markets in Latin America and Asia Pacific. Tough trading conditions in Western Europe constrained volume and turnover growth but careful cost management helped to deliver improved profits. The Quick Service Restaurants business has delivered double digit profit growth by pursuing their strategy of driving same store sales growth and new store openings.

At constant exchange rates, Group turnover grew 3% to (pound)1,700m while it remained flat at reported currencies. This was driven by both Spirits & Wine and Quick Service Restaurants. At constant exchange rates, Spirits & Wine turnover grew (pound)21m (1%) to (pound)1,577m. The Quick Service Restaurants business, Dunkin' Brands, increased turnover by (pound)27m (28%) to (pound)123m.

At constant currency, normalised profit before tax increased by 13%. Reported profit before tax increased 7% to (pound)285m which reflects an adverse foreign currency translation and transaction movement of (pound)14m as a result of restating the profit for the prior period at this year's rates.

The Directors have declared an interim dividend of 6.5p per share, an increase of 11%.

Business drivers

Our strategy is delivering good growth in the core spirits and premium wine brands and from Quick Service Restaurants. We focus on three areas to drive competitive advantage and sustainable future growth:

- Portfolio: By building and innovating our brand portfolio through effective marketing, we will retain consumers who enjoy our brands, and attract and excite new consumers to win greater market share.

- Presence: Through prioritising, developing and extending our geographic presence, we will establish strong positions in key markets across the world.

- People: By developing our people, harnessing their talents and being an 'employer of choice', we will attract and retain the best people to deliver our business goals.

Our increased investment in these areas, particularly advertising and promotion, over the past five years is driving robust brand growth and strong financial results.

SPIRITS & WINE

	2005	2004	Growth
. Volume (9L cases)	35.7m	36.0m	(1)%
. Net turnover	(pound) 1,236m	(pound) 1,224m	1%
. Gross profit	(pound) 743m	(pound) 729m	2%
. Advertising and promotion	(pound) 217m	(pound) 215m	1%
. Trading profit	(pound) 298m	(pound) 281m	6%

Spirits & Wine net turnover has increased through the growth of our core spirits brands and premium wine brands. Net turnover grew 1% while volumes fell by 1%, reflecting two percentage points of price and mix improvement. The core brands and premium wines are the key drivers of the gross profit improvement. Gross profit increased by (pound)14m, or 2%, reflecting price and mix improvements ((pound)11m) and a lower cost of goods ((pound)9m) which have been partly offset by reduced volumes of non-core brands ((pound)6m). As a result, trading profit grew (pound)17m or 6%. We successfully reduced overheads by 2% through a range of cost saving initiatives that we began last year.

Marketing investment: During the period, we increased our investment in advertising and promotion by 1% in line with net turnover growth. We also increased the investment focus on the core brands and growth markets directing more behind the core brands including new campaigns and innovation. This reflects the increasingly rigorous way in which we allocate investment between brands and markets. Our investment in the core brands increased by 6% on a like-for-like basis while we reduced our investment in the local market leaders by 14% and other Spirits & Wine brands by 12%. The increased marketing investment in the core brands has been directly behind selected brand market combinations, particularly Malibu in the US and UK, Beefeater in the US and Spain, Courvoisier in the US, Stolichnaya in the US, Ballantine's in Spain, Canadian Club in the US and Sauza in Mexico. As a result, we have increased our investment in quality brand building programmes behind the core brands in key markets. We have continued to invest in innovation opportunities but with a different phasing from last year. The first half of last year included the launch costs of Kuya in the US and the Christmas spend on Tia Lusso in the UK. The focused approach to our investment allocation is helping us to achieve a greater impact from our marketing spend.

Brand review

We manage the Spirits & Wine portfolio as four groups: core brands, local market leaders, premium wine and other Spirits & Wine brands.

The growth in gross profit was driven primarily by the growth of the core brands with their premium positioning and correspondingly higher margins. The average gross profit per case of the core brands is more than twice that of the rest of the portfolio. Therefore we continue to direct our investment and resources to drive core brand growth.

The core brands grew both volumes and net turnover by 2%. We increased marketing spend by 6% and net brand contribution increased by 3%. With the agreement to distribute Stolichnaya in markets in the European Union, Latin America, Asia Pacific and Africa, Stolichnaya has become a core brand reflecting its increasingly international presence in our portfolio. It replaces Tia Maria which now joins the local market leaders reflecting its strength in a more limited range of markets including the UK, Spain and Argentina. Under the previous definition, core brand volumes grew 1% with net turnover up 1% and the local market leader brand volumes declined by 3% and net turnover remained flat on last year.

Spirits & Wine volume and net turnover growth

	Volume million 9L cases	Volume growth %	Net turnover growth %
Core brands			
Ballantine's	2.8	(4)	(1)
Beefeater	1.0	(9)	(3)
Canadian Club	1.3	5	(1)
Courvoisier	0.7	4	0
Kahlua	1.6	(4)	(3)
Maker's Mark	0.3	15	19
Malibu	1.5	10	14
Sauza	1.6	15	3
Stolichnaya	1.0	3	5
Core brands	11.8	2	2
Core brands (previous definition)	11.1	1	1
Local market leaders	5.4	(4)	(3)
Local market leaders (previous definition)	6.2	(3)	0
Premium wine	8.0	2	5
Other Spirits & Wine brands			
Other spirits	6.6	(1)	5
Other wine	3.9	(9)	(13)
Other Spirits & Wine total	10.5	(4)	(1)
Total	35.7	(1)	1

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The growth of the core brands was led by Maker's Mark, Malibu, Sauza and Stolichnaya. Price increases on Maker's Mark helped to grow net turnover by 19% while volumes were up 15%. Similarly, price increases on Malibu in the US helped to grow net turnover by 14% ahead of volumes up 10%. Sauza volumes grew 15% while net turnover was up 3%. The price/mix dilution reflects price decreases in Mexico following declines in raw material costs. Stolichnaya grew volumes by 3% and a price increase in the US helped to grow net turnover by 5%. The tough trading conditions in Europe and our focus on value creation held back the volume performance of Ballantine's and Beefeater but a price increase for both brands in Spain supported a better performance in net turnover. Ballantine's volumes fell 4%, particularly as a result of tough conditions in Europe, but net turnover fell by only 1%. Beefeater volumes fell by 9% with net turnover down by 3% driven by volume declines in the UK and Asia. We saw good growth in Beefeater's core markets of Spain and the US. Canadian Club volumes grew 5% but net turnover declined by 1% reflecting negative mix in the US and mix dilution from the growth of ready-to-drinks in Australia. Courvoisier grew volumes 4% with flat turnover as a result of negative product and market mix. We have seen stronger growth of the lower marques such as VS and good growth in some emerging markets including Mexico and China. Kahlua volumes fell by 4% and net turnover by 3% reflecting lower ready-to-drink sales in North America.

Our strategy for the local market leader brands is to provide important local scale to support the development of the core brands in key markets. As part of this, they are important contributors to overall profit and cash generation. Among the local market leader brands, the growth in volumes of Whisky DYC and

Centenario in Spain and the recovery of volume growth in Imperial in South Korea were offset by volume declines in the Mexican brandies, Fundador in the Philippines and Teacher's and Tia Maria in the UK. As a result, overall local market leader volumes declined by 4% while net turnover declined by 3%. We reduced our marketing investment particularly behind Tia Lusso in the UK and Imperial in South Korea so that we maintained net brand contribution in line with last year.

The premium wine brands grew volumes by 2% and continued to deliver price and mix improvements with net turnover up by 5%. Marketing spend increased by 11% and trading profit increased by 14%.

The net turnover of the other Spirits & Wine brands declined by 1% with volumes down by 4%. In line with our strategy to prioritise our marketing investment on the core brands, we reduced spend on the other Spirits & Wine brands by 12%. Net brand contribution remained flat.

Market review - Spirits & Wine

The key geographic drivers are the strong growth in core brand volumes in North America which delivered good turnover and profit growth, improved trading in Asia Pacific, and good value growth in the premium wine portfolio. These good results were in part offset by volume and turnover declines in some Western European markets principally as a result of unfavourable macro-economic conditions which have depressed consumption trends. However, a focus on cost management has helped to grow European profits in spite of these trading conditions.

The regional performance of our business is reviewed below.

North America

	Growth
. Volumes (9L cases)	1%
. Net turnover	4%
. Advertising and promotion	6%
. Trading profit	14%

Strong trading in our North American business delivered trading profit growth of 14% to (pound)103m after advertising and promotion grew 6%. Net turnover increased by 4% to (pound)318m with volumes up 1%.

The strong performance in North America was driven by continued good trading in our US business. US volumes grew 3% and, with price and mix improvements, net turnover increased by 5%. This was driven by the core brands with volumes up 4% and the benefit of the price increases that we implemented during last financial year on Malibu, Maker's Mark and Stolichnaya. Our business has continued to benefit from the premium positioning of our core brand portfolio, successful innovation and the benefits of our partnership approach with US distributors. However, trading conditions in Canada were tougher, particularly with the strike by the Liquor Board in Quebec, which caused volumes in Canada to fall by 4% in the short term.

Malibu saw very strong growth in the US with volumes up 25% and net turnover up 31% supported by the successful launch of the new flavours, mango and pineapple. We have extended this to include passion fruit in April 2005 to capitalise on the fast-growth in flavoured rums. Malibu also increased its share of the rum category while we also benefited from a price increase implemented towards the end of last year. Kahlua has continued to deliver positive consumption trends in the US with an increased share of the cordials category. Volumes of the base

Kahlua brand grew 1% with net turnover up 2%. The "Everyday Exotic" campaign is working well and we launched a new flavour in the "Drinks-To-Go" range with a Kahlua Vanilla White Russian.

Sauza grew volumes by 3% with good growth on Hornitos and Conmemorativo. A new brand extension, Sauza Hacienda, will be launched in late April 2005 to extend the brand's appeal and to provide an offering across the key brand categories. Maker's Mark continued to grow strongly and benefited from last year's price increase. It grew market share to an all-time high with volumes up 14% and net turnover up 20%.

We increased the price on Stolichnaya which has constrained volume growth in the short term to 1% and delivered net turnover growth of 4% within the competitive premium imported vodka category. The pressure on volumes was in part due to a temporary delisting with a key customer as a result of the price increase. Beefeater in the US grew volumes by 4% and net turnover by 5% reflecting a more focused approach to promotional activity and the benefit of a new advertising campaign called "This Is Gin".

We are continuing to work on the revitalisation programme for Canadian Club with a new advertising programme and a tie-in with poker, which is one of the fastest growing sports in the US. Canadian Club volumes fell 1% in the period. Courvoisier volumes grew 1% driven particularly by the stronger growth of the VS marque.

We have continued to pursue our "First Choice Supplier" strategy with US distributors following the signing of additional performance-based contracts in six new States. Almost all of our Open State volume (excluding the Franchise States) is now covered by these new contracts which are long-term partnerships based on sustainability, mutual benefit and clear incentives. In addition, we have also seen market share gains in the Control States as we continue to benefit from focus we have placed on growing our brand portfolio in these States.

Europe

	Growth
. Volumes (9L cases)	(6)%
. Net turnover	(5)%
. Advertising and promotion	(3)%
. Trading profit	3%

Trading profit grew 3% to (pound)67m reflecting profit growth in Spain and a continued focus on cost management and marketing effectiveness. Volumes fell by 6% and net turnover declined by 5% to (pound)367m as a result of the tough trading environment in many Western European markets. Overheads were reduced by 6% through cost savings

initiatives and new distribution arrangements we introduced last year. We continued to focus on marketing effectiveness with a 3% increase on our core brands in Europe although our overall advertising and promotion spend reduced by 3% as we reallocated resources to higher growth markets such as the US. We also increased prices on several key brands across Europe as we sought to optimise our price positions and to leverage our brand equity and premium positioning.

Our focus on value creation in Spain with price increases across a number of brands held volumes flat but grew net turnover by 2%. Ballantine's volumes declined by 2% with flat net turnover reflecting a price increase. However, Ballantine's continued to grow its share of the Scotch whisky category even though we increased prices on 1 September. We continued to invest strongly behind the brand with a range of activities to support the "Go Play" campaign. Volumes for Beefeater grew 3% while net turnover grew 6% also reflecting the benefit of a price increase. Beefeater consolidated its market leadership of the category by value with further share gains. Malibu grew volumes 17% and continued to gain share. We have run television and radio advertising in conjunction with around 600 on-trade promotion events. Whisky DYC volumes increased by 4% while net turnover grew 5% reflecting the consistent marketing behind the "DYC Une" campaign. Centenario volumes grew 1% in the competitive brandy category.

The challenging trading environment in the UK caused volumes to fall by 8% and net turnover to decline by 6%. Despite this, Courvoisier continued to perform well with volumes up 4%, consolidating its leadership of the cognac category. A new advertising campaign, "Earn It", was launched to reinforce its premium positioning. Malibu also performed well with volumes up 7% as it continued to gain share in both the on- and off-trade. Volumes of the Tia Maria mother brand grew 4% reflecting a refocusing of investment behind the new campaign, "A Dark Spirit", and a concentration on its heartland markets in the UK. However, volumes for the overall Tia Maria trademark declined by 21% as Tia Lusso continued to face aggressive competitive activity. The trial launch of Tia Maria Orange in the UK at Christmas also worked well and will be extended throughout the summer. Teacher's volumes declined by 11% with net turnover down 9% reflecting the competitive nature of the declining blended Scotch category. We have also seen volume declines in our fortified wines as a result of strong competition and discounting in the category.

Many other markets in Western Europe, such as France and Germany, have experienced sluggish economies, high unemployment and slower consumer spending. Our sales in France were distorted in the period by the government-imposed price decrease on 1 September. Ballantine's continued to perform well in both the on and off-trade. The launch of Malibu Mango in France helped a good overall performance for Malibu. In Germany, the trading environment remains competitive, particularly on price. We increased the price on Ballantine's in order to maintain its consistent premium positioning across Europe. The price increase, coupled with the challenging trading conditions in Germany, caused Ballantine's volumes to decline by 22%. Kuemmerling volumes fell 4% following a price increase. We increased our investment in a new TV campaign for Kuemmerling and we also benefited from the launch of Kuemmerling Orange last April.

We continue to make good progress in a number of markets in Central and Eastern Europe. We have market leadership in several markets such as Romania, Bulgaria, Hungary, Bosnia, and Serbia among others. Our strategy to improve distribution and brand presence is delivering results. For example, Ballantine's grew volumes 64% in Romania and 61% in Poland. In Russia, we have also improved our distribution presence and increased brand awareness through a consumer trial programme for our core brands. As a result, Ballantine's and Sauza both grew share in Russia.

Latin America

		Growth
.	Volumes (9L cases)	2%
.	Net turnover	3%
.	Advertising and promotion	7%
.	Trading profit	4%

Trading profit grew 4% to (pound)29m while net turnover grew 3% to (pound)122m. Volumes grew

2%. These results were driven by a good performance from the core brands, with volumes up 21% driven by Sauza, and good growth in the domestic Argentine wine portfolio. A 4% decline in the volumes of the Mexican brandies held back the performance of the overall region.

Our Mexican business represents about three quarters of our sales in Latin America and is the leading spirits business in Mexico. We continued to increase our focus on the core brands as we shifted our investment away from the local brands. Sauza performed well with volumes up 32%. It grew its share in both volume and value as we increased our marketing investment by 16% behind a wide range of brand-building activities. This was part of an overall increase of 35% across all the core brands which also helped to drive growth in Ballantine's, Courvoisier and Malibu. The domestic brandy category continues to be affected by the illegal spirits market in Mexico. However, we made good progress with Presidente with volumes up 1% but pressure on Don Pedro and Anejo Los Reyes held back overall performance of the Mexican brandies. We have continued to work with the Mexican government on initiatives to address the illegal spirits market.

In Argentina, we remain the leading spirits and wine company with a good trading performance. Volumes grew 15% and net turnover 25% driven principally by the Argentine wine portfolio. The domestic Argentine wine portfolio helped to grow our domestic wine volumes by 21% and net turnover by 34%. In Brazil, we have increased our market share with good growth in our Latin American wines and with Teacher's growing volumes by 42%. We have also made good progress with Ballantine's in other markets such as Chile, Columbia Ecuador and Venezuela with excellent growth.

Asia Pacific

	Growth
. Volumes (9L cases)	5%
. Net turnover	5%
. Advertising and promotion	0%
. Trading profit	3%

An improved performance in South Korea and good trading in our other smaller markets, such as Greater China and India, have delivered turnover and profit growth in Asia Pacific. Volumes grew 5% with net turnover also up 5% to (pound)120m. Trading profit grew 3% to (pound)32m. Advertising and promotion was held flat as a result of reduced investment in South Korea which reflects regulatory restrictions on marketing, and the new brand launch costs incurred last year. At the same time, we continued to invest strongly in Greater China, Australia and the Philippines.

The economy in South Korea continues to be held back by the household debt difficulties. As a result, the whisky category has continued to decline but our business has continued to grow its market share to an all-time high. Volumes in South Korea grew 2% with net turnover up 6% with good growth coming particularly from the deluxe premium Scotch whisky category with Imperial 17 year old. The launch of Imperial 17 year old during last year has delivered a significant mix benefit with Imperial's overall net turnover up 12% against volumes up 1%. Ballantines volumes were up 10% driven by the aged varieties, particularly Ballantine's Master's and Ballantine's 12 year old.

In Australasia, the Canadian Club ready-to-drinks continue to deliver positive consumption trends. We have also recently launched a Ballantine's and Cola ready-to-drink to broaden our offering. In the Philippines, we remain the leading imported spirits company and we continued to grow share in a difficult trading environment. Fundador has maintained its position as the largest international spirits brand but incurred volume declines of 14% as a result of increasing competition from low-priced Spanish imports and significantly increased excise duties. We also saw strong growth in India and Thailand.

We have continued to make good progress with our business in Greater China with volumes up 45% and net turnover up 53% from a small base. This has been supported by a significant increase in marketing investment. In Greater China, the Ballantine's range grew rapidly: Ballantine's 12 year old grew volumes by 80% while Ballantine's 17 year old grew by 46%. We also saw strong growth in the Chinese duty free channel. Ballantine's was supported by an integrated

above-the-line campaign using TV, print and billboards in China's six largest cities. Courvoisier also benefited from growth in the more premium categories of VSOP and XO with overall volumes up 54%. We are beginning to seed other core brands into the Chinese market as we build brand presence and distribution strength.

Premium Wine

		Growth
.	Volumes (9L cases)	2%
.	Net turnover	5%
.	Advertising and promotion	11%
.	Trading profit	14%

The premium wine brands have delivered a very strong performance with trading profit up 14% to (pound)58m. Volumes grew 2% and continued price/mix improvement supported net turnover growth of 5% to (pound)268m. Advertising and promotion increased 11% primarily behind Clos du Bois in the US. Our consistent delivery of trading profit growth and improved capital efficiency is driving increased returns and we remain on track to meet our stated return on investment targets. These strong results demonstrate the resilience of our business model which continues to benefit from its coherent spread of wine assets and distribution around the world and the effective execution of our premium wine strategy.

Our premium-priced wines ((pound)5 or US$7 retail price and above) represent around 60% of the portfolio by volume but around 90% of the portfolio by value. Our strategy is to shift the mix of our wine portfolio towards these more premium categories and away from the value category. During the period, our premium-priced wines grew volumes by 11% compared with the value category which saw volume declines of 11%. The top ten premium wine brand market combinations, which account for nearly half of all wine profits, performed particularly strongly with volumes up 18%.

Our US wine business has performed strongly with volumes up 7% reflecting growth across a number of brands. Our largest US brand, Clos du Bois, continues to be the key growth driver with volumes up 15% and net turnover up 17%. Mumm Cuvee Napa also experienced overall strong growth with volumes up 26% and the addition of the Gary Farrell icon wines into the portfolio has helped to improve the credibility and breadth of our US domestic portfolio. The importance of our imported wine portfolio into the US market continues to grow, particularly from New Zealand and Spain. For example, we have increased the volumes of New Zealand imported wines by 39% and their net turnover by 40% as we have built distribution. Spanish imports increased volumes by 25% and net turnover by 46%. Our Champagne volumes were held back in the US as a result of price increases that we implemented as part of our long-term strategy to maximise value creation.

The UK wine business delivered strong growth with volumes up 26% with the key drivers being New Zealand and Spanish wines. New Zealand wine volumes grew by 60% with contribution from across the portfolio but helped particularly by the increased supply of Marlborough Sauvignon Blanc following the shortage of the 2003 vintage. Spanish volumes grew by 27% giving us leadership of the Rioja category in the UK with our leading Rioja, Campo Viejo, increasing volumes by 40%. We also continue to successfully execute our Champagne strategy in the UK where we increased prices to reflect its premium positioning and limited availability. As a result, volumes declined by 29% in line with our plans. For example, pricing on our flagship brand, Mumm Cordon Rouge, increased by 9%. At the sametime, we saw improved product and channel mix for our Champagne brands.

The domestic wine market in New Zealand remains challenging with strong competition from Australian imports caused partly by the relative strength of the New Zealand dollar against the Australian dollar. As a result, volumes declined by 2% but with flat net turnover. Importantly, however, we continue to see growth in our premium brands. For example, the Montana range grew volumes by 9% and Lindauer increased volumes by 2%. We have also continued to restructure our sales and marketing operations in New Zealand and Australia to improve our portfolio and channel strategies in those markets. There are encouraging early signs with net brand contribution up in Australia by 48%.

However, the business continues to develop its export potential with a 29% growth in its wine exports.

In Spain, the domestic market remains highly competitive with strong price competition in each of the major trade channels. We continue to shift our focus from low value table wines to premium branded wines and hence overall volumes declined 5% and turnover dropped by 2%. However, we are experiencing increasing success in our premium portfolio where we have seen strong growth. For example, volumes of super-premium wines grew by 22% and Campo Viejo grew by 4%.

Our global wine capital management programme continues to maintain a tight focus on capital employed and once again there has been no growth in our capital base and we have seen strong cash generation.

Duty Free

Our Duty Free business has slowed reflecting an aggressive competitive environment, particularly in North America and in Europe. In Europe, the trading conditions have been difficult with a decline in spirits purchasing in the travel retail market reflecting the impact of EU accession. There have also been declines in ferry passenger numbers in the Baltic and English Channel. However, consumption trends in the Asian Duty Free business remain strong and Ballantine's aged whisky continues to perform well.

QUICK SERVICE RESTAURANTS

- Distribution points up 6%
- Number of combination stores up 19%
- System-wide sales growth of 15%
- Trading profit up 36% to (pound)45m

Our Quick Service Restaurants division, Dunkin' Brands, had an excellent start to the year with strong growth in turnover and profit. Turnover increased by (pound)27m, or 28%, to (pound)123m. This reflects a review of lease accounting which resulted in an (pound)11m uplift to correct the accounting treatment of rental income in prior years. There was no impact on trading profit because the uplift in rental income was offset by a similar increase in rental expense. Underlying turnover grew by (pound)16m, or 17%, driven largely by global system-wide sales growth of 15%. Gross profit grew 29% to support trading profit up 36% to (pound)45m. The main drivers of trading profit growth are the continued growth in same store sales and the contribution from new stores. Distribution points increased by 6% with new store openings both in the US and internationally.

Dunkin' Donuts is the key growth driver of this division with a 15% increase in global system-wide sales. This reflects US same store sales up 8.1% and an 8% increase in global distribution points. The same store sales growth outpaced the rate of 5.1% for the overall US industry and continues to be driven by innovation and excellent marketing. These activities have resulted in a higher customer count and an improved average ticket value, up 6%. The increase in ticket value is helped by the continued focus on higher margin products such as beverages, particularly the espresso range of coffee products. We have launched a range of the new breakfast sandwiches which have proved popular. The product range has also been extended to include reduced carbohydrate bagels and croissants. We have also introduced a 'stored value card' which allows customers to load cash onto a card for purchases: the cards have been used as gifts and many customers have adopted them as a convenient alternative to cash.

Baskin-Robbins grew global system-wide sales by 17%. This was driven by same store sales growth up 1.3% and an increase in new store openings of 5%. Same store sales growth was supported by an increase in the average ticket value as a result of improved product mix. The mini-cake range performed well with marketing programmes running through November, December and for Valentine's Day. The new store format that we trialled in California has seen strong growth with an 11% increase in same store sales. The key innovations for the new store concept are a beverage bar, a new cake display and the introduction of a new soft-serve ice cream to which customers can add their own toppings. Baskin-Robbins is also launching a new iced fruit beverage, Bold Breeze, in time for the summer season and is testing a new range of frozen custard products.

Encouragingly, Togo's has delivered an improved performance with US same store sales up 0.6% in spite of the difficult economic conditions in California and the competitive environment. System-wide sales grew 4%. This improvement is a reflection of the recently reformatted stores and the increased focus on operational excellence. Some 90% of Togo's stores have now been converted to the new store format. We have also closed some underperforming stores which has caused distribution points to reduce by 5%. Togo's has also continued to introduce a wide range of new sandwich formats including a daily special.

Multi-branded stores, which combine the Dunkin' Donuts and Baskin-Robbins restaurants in one location, increased by 19% to over 1,400 store locations. This is a key driver of new store openings and is supported by the brands' complementary day-part offering and brings significant benefits to our franchisees through improved scale and operating efficiencies, along with increased choice for consumers.

BRITANNIA SOFT DRINKS

The Group's share of Britannia's profits for the period was (pound)6m (2004: (pound)7m). This decline reflects Britannia's increased investment in existing and new brand extensions, investment in IT and business infrastructure and increased pension costs. Allied Domecq and the other shareholders of Britannia Soft Drinks Limited have agreed subject, inter alia, to market conditions, to consider an initial public offering of Britannia Soft Drinks, between 1 January 2005 and 31 December 2008. Allied Domecq has a 23.75% share of Britannia Soft Drinks Limited.

TAXATION

The normalised tax charge for the year is anticipated to be 24%, in line with last year.

GOODWILL AND EXCEPTIONAL ITEMS
Goodwill amortisation totalled (pound)20m (2004: (pound)20m). The exceptional items include profits on asset disposals ((pound)14m) which is offset by costs incurred in restructuring the Spirits & Wine business ((pound)6m). The disposals relate principally to property assets within the premium wine business. The restructuring programme began last year and delivered savings in the period of (pound)8m. This programme is reducing the overlap between central, regional and market-focused functions which is allowing us to be leaner and more responsive in order to speed up decision making and reinforce accountability throughout the business. As part of this, we are also introducing more efficient routes to market, particularly in Europe.

CASH FLOW
Net cash flow from operating activities was (pound)225m (2004: (pound)244m) and free cash flow after dividends was (pound)42m (2004: (pound)38m). Compared to last year, the key drivers of free cash flow have been inflows from fixed asset disposals net of capital expenditure ((pound)26m) and reduced finance charges ((pound)12m). This was offset by cash outflows relating to an increased dividend ((pound)11m), an increase in maturing inventory ((pound)22m) to support future growth in premium wine and tequila, and higher cash tax ((pound)3m).

Net debt decreased by (pound)118m during the period from (pound)1,941m to (pound)1,823m which includes a favourable currency translation impact on our borrowings of (pound)46m largely as a result of the weakening US dollar. Net debt reduction resulting from cash flows was (pound)72m.

At 28 February 2005, EV gearing (net debt as a percentage of market capitalisation plus net debt) was 24% (2004: 30%). Interest cover based on EBITDA was 6.1 times and cover based on EBITA was 5.5 times.

FOREIGN EXCHANGE
We do not hedge the impact of foreign exchange movements on the translation of our overseas earnings. As a result, our prior year trading profit restated at 2005 exchange rates is reduced by (pound)16m, primarily as a result of the weakening US dollar and Mexican peso. We anticipate, based on current exchange rates and the transaction hedge contracts in place, that trading profit will be adversely affected for the full year by (pound)30m, including around (pound)15m from currency exposures on transactions.

PENSIONS
The profit and loss charge under FRS 17 was (pound)25m (2004: (pound)26m), with a (pound)16m (2004: (pound)16m) charge within trading profit and a (pound)9m (2004: (pound)10m) impact within finance charges. The expected charge for the full year is around (pound)51m, being (pound)32m within trading profit and (pound)19m within finance charges.

INTERNATIONAL FINANCIAL REPORTING STANDARDS
Allied Domecq will report under the International Financial Reporting Standards (IFRS) for the financial year commencing 1 September 2005 along with a restated comparative for the year ending 31 August 2005.

The Group has not yet determined the full effects of adopting IFRS and further detail will be provided around the time of our year end results. The first year of comparative data will be the financial year ended 31 August 2005 with an opening balance sheet at 1 September 2004. We have prepared this balance sheet, which remains subject to audit agreement. We have also developed an unaudited restatement of earnings for the financial year to 31 August 2004 to assess the likely profit and loss account of the adoption of IFRS.

The balance sheet would be increased by around (pound)1.6bn, principally as a result of additional brands and goodwill being capitalised on the balance sheet. Whilst basic earnings are broadly unaffected, there would be some adjustments to specific lines of the profit and loss account. Based on these unaudited restatements, the key areas of difference which have so far been confirmed are described below.

IFRS 3 - Business combinations: We are planning to restate acquisitions dating back to 1986. The net effect after adjusting for the additional deferred tax liability is expected to be around (pound)1.5bn. Brands and goodwill will be subject to an annual impairment test. The elimination of goodwill amortisation under IFRS compared to the current treatment under UK GAAP would benefit reported basic earnings by (pound)40m each year.

IAS 41 - Agriculture: Agricultural assets, both in the ground and harvested, will now be recorded on a fair value basis rather than at cost. As a result, we anticipate that the balance sheet for 31 August 2004 would be increased by around (pound)50m net of tax, and the impact on the profit and loss account for the same year would not be material.

IAS 39 - Financial instruments: We will adopt IAS 39 in full and propose to achieve hedge accounting wherever practicable from 1 September 2005. We are not affected by the EU 'carve-outs' from the original standard. No restatement of comparatives is required on transition to this standard. On 1 September 2005, the balance sheet will be restated to reflect derivative contracts at fair value, with the corresponding adjustment to reserves. We believe that following the actions we are taking to achieve hedge accounting, the impact of this standard on the profit and loss account will not be material.

IFRS 2 Share-based payments: We estimate the additional charge to the profit and loss account for the year to 31 August 2004 would have been (pound)12m.

IAS 10 Post balance sheet events: Dividends are accrued under IFRS as a liability in the period in which they are approved. As a result, the profit and loss account for each financial year will only reflect the interim dividend for that year and the final dividend for the previous year. The net effect of this adjustment would have been an (pound)11m benefit to the profit and loss in the year ended 31 August 2004 and a (pound)104m uplift in our opening balance sheet.

IAS 12 Taxation: We are still evaluating the effect of tax on earnings as this is influenced by a number of different standards. Further guidance will be given when we publish our full year accounts this year.

CONSTANT EXCHANGE RATE REPORTING

The following tables provide a reconciliation between the 2004 reported results and those shown at constant exchange rates in the Operating and Financial Review.

	2004			2005	
					Growth
	Reported	Foreign	At 2005	Reported	at 2005
	2004	exchange	exchange	2005	exchange
GROUP	(pound)m	(pound)m	(pound)m	(pound)m	%

Turnover	1,704	(52)	1,652	1,700	3
Trading profit	337	(16)	321	349	9
Finance charges	(71)	2	(69)	(64)	(7)
Profit before tax	266	(14)	252	285	13
Taxation	(64)	4	(60)	(68)	13
Minority interests	(8)	-	(8)	(9)	15
Earnings	194	(10)	184	208	13
Weighted average number of ordinary shares (millions)	1,075	-	1,075	1,083	-
Normalised earnings per share (pence)	18.0	(0.9)	17.1	19.2	12

	2004			2005	
SPIRITS & WINE	Reported 2004 (pound)m	Foreign exchange (pound)m	At 2005 exchange (pound)m	Reported 2005 (pound)m	Growth at 2005 exchange %
Turnover	1,600	(44)	1,556	1,577	1
Duty	(337)	5	(332)	(341)	3
Net turnover	1,263	(39)	1,224	1,236	1
Advertising & promotion	(225)	10	(215)	(217)	1
Trading profit	296	(15)	281	298	6

Geographical Analysis - Group turnover and trading profit In line with previous statements, the trading profits of the regions shown in this review are on a management reporting basis at constant exchange rates, rather than on a statutory basis at each year's actual exchange rates, as shown in note 3 to the accounts. The table below shows the foreign exchange effect of restating last year's reported trading profit for each region at this year's actual exchange rates. "Others" in the table includes Global Operations (including profit from the sale of bulk whisky), stand-alone Duty Free operations and central costs not allocated to the sales and marketing regions. The profit decline in "Others" principally reflects a decline in stand-alone Duty Free profits and the additional costs associated with the implementation of the requirements of the Sarbanes-Oxley Act of 2002 and International Financial Reporting Standards.

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Geographical Analysis - Group net turnover

	2004			2005	
	*Actual 2004 (pound)m	Foreign exchange (pound)m	At 2005 exchange (pound)m	Reported 2005 (pound)m	Growth at 2005 exchange %

North America	325	(20)	305	318	4
Europe	390	(4)	386	367	(5)
Latin America	132	(14)	118	122	3
Asia Pacific	115	(1)	114	120	5
Premium Wine	262	(6)	256	268	5
Others	39	6	45	41	(9)
Spirits & Wine	1,263	(39)	1,224	1,236	1
QSR	104	(8)	96	123	28
Group total	1,367	(47)	1,320	1,359	3

*Actual 2004 net turnover includes a reclassification of (pound)18m from Latin America into Others relating to the Mexican operating unit. This year the management responsibility for the spirits operating unit moved from Latin America to Global Operations. Reported net turnover in 2004 for Latin America was (pound)150m and Others was (pound)21m. Trading profit was not affected.

Geographical Analysis - Group trading profit

	2004			2005	
	Reported 2004 (pound)m	Foreign exchange (pound)m	At 2005 exchange (pound)m	Reported 2005 (pound)m	Growth at 2005 exchange %
North America	99	(9)	90	103	14
Europe	64	1	65	67	3
Latin America	33	(5)	28	29	4
Asia Pacific	33	(2)	31	32	3
Premium Wine	52	(1)	51	58	14
Others	15	1	16	9	(44)
Spirits & Wine	296	(15)	281	298	6
QSR	34	(1)	33	45	36
Britannia	7	-	7	6	(14)
Group total	337	(16)	321	349	9

Group profit and loss account
Six months to 28 February 2005

	Note	Six months to 28 February 2005 Before goodwill and exceptional items (pound)m	Goodwill and exceptional items (pound)m	Total (pound)m	Six ... go... excep... (p...
Turnover	2	1,700	-	1,700	
Operating costs - goodwill amortisation		-	(20)	(20)	
- other		(1,361)	(6)	(1,367)	
Operating profit from continuing activities		339	(26)	313	
Share of operating profits of associated undertakings		10	-	10	
Trading profit on ordinary activities before finance charges	2	349	(26)	323	
Profit on disposal of fixed assets in continuing activities		-	14	14	
Profit on ordinary activities before finance charges		349	(12)	337	
Interest payable		(55)	-	(55)	
Other finance charges		(9)	-	(9)	
Profit on ordinary activities before taxation		285	(12)	273	
Taxation	5	(68)	3	(65)	
Profit on ordinary activities after taxation		217	(9)	208	
Minority interests - equity and non-equity		(9)	-	(9)	
Profit earned for Ordinary Shareholders for the period	4	208	(9)	199	
Ordinary dividends	6			(71)	
Retained profit				128	
Earnings per Ordinary Share:					
- basic	4			18.4p	
- diluted	4			18.2p	
- normalised	4	19.2p			

The above figures comprise the unaudited results for the six months to 28 February 2005 and 29 February 2004, all of which relate to continuing operations.

Group balance sheet
At 28 February 2005

	Note	28 February 2005 (pound)m	31 August 2004 (pound)m	29 February 2004 (pound)m
Fixed assets				
Intangible assets		1,212	1,234	1,251
Tangible assets		884	921	893
Investments and loans		14	21	22
Investments in associates		72	73	79
Total fixed assets		2,182	2,249	2,245
Current assets				
Stocks		1,372	1,343	1,341
Debtors		660	636	618
Cash at bank and in hand	10	127	129	140
Total current assets		2,159	2,108	2,099
Creditors (due within one year)				
Short-term borrowings	10	(487)	(378)	(599)
Dividends		(71)	(104)	(63)
Other creditors		(922)	(984)	(900)
Total current liabilities		(1,480)	(1,466)	(1,562)
Net current assets		679	642	537
Total assets less current liabilities		2,861	2,891	2,782
Creditors (due after more than one year)				
Loan capital	10	(1,463)	(1,692)	(1,657)
Other creditors		(51)	(43)	(46)
Total creditors due after more than one year		(1,514)	(1,735)	(1,703)
Provisions for liabilities and charges		(182)	(179)	(168)
Net assets excluding pension and post-retirement liabilities		1,165	977	911
Pension and post-retirement liabilities (net of deferred taxation)		(372)	(387)	(392)
Net assets including pension and post-retirement liabilities		793	590	519
Capital and reserves				
Called up share capital		277	277	277
Share premium account		165	165	165

Merger reserve		(823)	(823)	(823)
Shares held in employee trusts		(88)	(112)	(122)
Profit and loss account		1,177	1,003	946
Shareholders' funds - equity	7	708	510	443
Minority interests - equity and non-equity		85	80	76
		793	590	519

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Group cash flow information
Six months to 28 February 2005

Reconciliation of operating profit to net cash inflow from operating activities	Note	Six months to 28 February 2005 (pound)m	Six months to 29 February 2004 (pound)m
Operating profit		313	295
Goodwill amortisation		20	20
Exceptional operating costs		5	2
Depreciation		41	38
Increase in stocks		(45)	(23)
(Increase)/decrease in debtors		(16)	20
Decrease in creditors		(72)	(80)
Expenditure against provisions for reorganisation and restructuring costs		(13)	(18)
Other items		(8)	(10)
Net cash inflow from operating activities		225	244

Group cash flow statement

Net cash inflow from operating activities		225	244
Dividends received from associated undertakings		8	9
Returns on investments and servicing of finance	8	(41)	(53)
Taxation paid	8	(47)	(44)
Capital expenditure and financial investment	8	7	(25)
Equity dividends paid		(104)	(93)
Cash inflow before use of liquid resources and financing		48	38
Management of liquid resources		(21)	(22)

Financing	8	4	4
Increase in cash in the period	10	31	20

Reconciliation of net cash flow
to movement in net debt

Increase in cash in the period		31	20
Increase in liquid resources		21	22
Decrease in loan capital		20	3
Movement in net debt resulting from cash flows		72	45
Exchange adjustments		46	251
Movement in net debt during the period		118	296
Opening net debt		(1,941)	(2,412)
Closing net debt	10	(1,823)	(2,116)

Notes to the accounts

1. Basis of preparation

These interim statements, which are unaudited, comply with relevant accounting standards. The accounting policies have been applied on a basis consistent with those applied in the 2004 Annual Report and Accounts. The 2004 Annual Report and Accounts were prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP) and have been reported on by the Group's auditor and filed with the Registrar of Companies. The report of the auditor was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

The periods to 28 February 2005 and 29 February 2004 are regarded as distinct financial periods for accounting purposes with the exception of taxation where the periods are allocated an appropriate proportion of the expected total annual charge.

These interim financial statements were approved by the Board on 20 April 2005.

2. Activity analysis

	Six months to 28 February 2005		Six months to 29 February 2004	
	Turnover (pound)m	Trading profit * (pound)m	Turnover (pound)m	Trading profit * (pound)m
Spirits & Wine	1,577	298	1,600	296
QSR	123	45	104	34
Britannia	-	6	-	7
	1,700	349	1,704	337

* Trading profit above is before goodwill and exceptional items. Goodwill and

exceptional items for the six months to 28 February 2005 is a loss of (pound)12m (2004: loss - (pound)32m) and relates wholly to Spirits & Wine activities for both periods.

During the period the Group has reviewed its lease accounting and as a result the QSR turnover for the six months to 28 February 2005 includes an (pound)11m uplift to correct the accounting treatment of rental income in prior years. There was no impact on trading profit because the uplift in rental income was offset by a similar increase in rental expense.

3. Geographical analysis

	Six months to 28 February 2005		Six months to 29 February 2004	
By country of destination	Turnover (pound)m	Trading profit * (pound)m	Turnover (pound)m	Trading profit * (pound)m
Europe	707	110	735	109
Americas	732	187	719	175
Rest of World	261	52	250	53
	1,700	349	1,704	337

* Trading profit above is before goodwill and exceptional items. Goodwill and exceptional items for the six months to 28 February 2005 relate to Europe (loss - (pound)9m) (2004: loss - (pound)19m), Americas (loss - (pound)3m) (2004: loss - (pound)3m) and Rest of World (nil) (2004: loss - (pound)10m).

Notes to the accounts

3. Geographical analysis(continued)

	Six months to 28 February 2005		Six months to 29 February 2004	
By country of operation	Turnover (pound)m	Trading profit * (pound)m	Turnover (pound)m	Trading profit * (pound)m
Europe	1,119	130	1,141	133
Americas	913	195	861	173
Rest of World	210	24	193	31
	2,242	349	2,195	337
Turnover with Group companies	(542)	-	(491)	-
	1,700	349	1,704	337

* Trading profit above is before goodwill and exceptional items. Goodwill and exceptional items for the six months to 28 February 2005 relate to Europe (loss - (pound)9m) (2004: loss - (pound)19m), Americas (loss - (pound)3m) (2004: loss - (pound)3m) and Rest of World (nil) (2004: loss - (pound)10m).

4. Reconciliation to normalised earnings

	Six months to 28 February 2005 (pound)m	Six months to 29 February 2004 (pound)m
Earnings as reported	199	167
Adjustments for exceptional items net of tax	(10)	9
Adjustments for goodwill amortisation net of tax	19	18
Normalised earnings	208	194
Average number of shares	Millions	Millions
Weighted average Ordinary Shares in issue during the period	1,107	1,107
Weighted average Ordinary Shares owned by the Allied Domecq employee trusts*	(24)	(32)
Weighted average Ordinary Shares used in earnings per share calculation	1,083	1,075
Normalised earnings per Ordinary Share	19.2p	18.0p

* Includes American Depositary Shares representing underlying Ordinary Shares.

Basic earnings per share of 18.4p (2004: 15.5p) has been calculated on earnings of (pound)199m (2004:(pound)167m) divided by the average number of shares of 1,083m (2004: 1,075m).

Diluted earnings per share of 18.2p (2004: 15.5p) has been calculated on earnings of (pound)199m (2004:(pound)167m) and, after including the effect of all dilutive potential Ordinary Shares, the average number of shares of 1,092m (2004: 1,079m).

Notes to the accounts

5. Taxation

The (pound)65m (2004:(pound)59m) total taxation charge for the six months to 28 February 2005 comprises UK taxation of (pound)6m (2004:(pound)7m), overseas taxation of (pound)55m (2004:(pound)49m) and taxation on the profits of associated undertakings of (pound)4m (2004:(pound)3m).

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Deferred tax assets of (pound)39m at 31 August 2004 have not been recognised due to the degree of uncertainty over the utilisation of the underlying tax losses and deductions in certain tax jurisdictions.

6. Ordinary dividends

The Board has declared an interim dividend of 6.5p per ordinary share (2004: 5.83p) payable on 8 July 2005. Dividends on American Depositary Shares are payable on 15 July 2005.

7. Reconciliation of movements in Shareholders' funds

	Six months to 28 February 2005 (pound)m	Six months to 29 February 2004 (pound)m
Profit earned for Ordinary Shareholders in the period	199	167
Currency translation differences on foreign currency net investments	43	126
Taxation on translation differences	(6)	(32)
Actuarial gains on net pension liabilities	9	1
Total recognised gains and losses relating to the period	245	262
Movement on shares in employee trusts	24	7
Ordinary dividends	(71)	(63)
Net movement in Shareholders' funds	198	206
Shareholders' funds at the beginning of the period	510	237
Shareholders' funds at the end of the period	708	443

Notes to the accounts

8. Detailed analysis of gross cash flows

	Six months to 28 February 2005 (pound)m	Six months to 29 February 2004 (pound)m
Returns on investments and servicing of finance		
Interest received	6	4
Interest paid	(44)	(54)
Dividends paid to minority shareholders	(3)	(3)
	(41)	(53)
Taxation paid		
UK taxation	-	1
Overseas taxation	(47)	(45)
	(47)	(44)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(40)	(37)
Sale of tangible fixed assets	41	12

Purchase of intangible fixed assets	-	(8)
Disposal of trade investments	6	8
	7	(25)
Financing		
Net disposal of Ordinary Share capital for employee trusts*	24	7
Decrease in other borrowings	(20)	(3)
	4	4

* Includes American Depositary Shares representing underlying Ordinary Shares.

Notes to the accounts

9. Reconciliation of net cash inflow from operating activities to free cash flow

	Six months to 28 February 2005 (pound)m	Six months to 29 February 2004 (pound)m
Net cash inflow from operating activities	225	244
Capital expenditure net of sale of tangible assets	1	(25)
Dividends received from associated undertakings	8	9
Operating cash net of fixed assets	234	228
Taxation paid	(47)	(44)
Net interest paid	(38)	(50)
Dividends paid - Ordinary Shareholders	(104)	(93)
- minorities	(3)	(3)
Free cash flow	42	38

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10. Net debt

	Cash at bank and in hand (pound)m	Overdrafts due within one year (pound)m	Other short-term borrowings due within one year (pound)m	Loan capital due after one year (pound)m	Six months to 28 February 2005 (pound)m	29 Feb (po
At the beginning of the period	129	(74)	(304)	(1,692)	(1,941)	(2
(Decrease)/increase in cash	(25)	60	(4)	-	31	
Increase in liquid resources	21	-	-	-	21	

(Increase)/decrease in loan capital and other loans	-	-	(176)	196	20	
Exchange adjustments	2	2	9	33	46	
At the end of the period	127	(12)	(475)	(1,463)	(1,823)	(2

11. Financial calendar

Ex dividend date for interim dividend	8 June 2005
Record date for interim dividend	10 June 2005
Interim dividend payable - Ordinary Shares	8 July 2005
Interim dividend payable - American Depositary Shares	15 July 2005
Preliminary results announced	20 October 2005
Annual Report published	November 2005

Independent review report by KPMG Audit Plc to Allied Domecq PLC

Introduction
We have been engaged by the Company to review the financial information set out on pages 19 to 26 for the six months ended 28 February 2005 and we have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so

that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less

in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 28 February 2005.

KPMG Audit Plc
Chartered Accountants
London
20 April 2005

US GAAP reconciliation

The following statements provide a reconciliation between profit earned for Ordinary Shareholders under UK GAAP and net income under US GAAP and a reconciliation between Shareholders' equity under UK GAAP and Shareholders' equity under US GAAP.

	Six months to 28 February 2005 (pound)m	Six months to 29 February 2004 (Restated) (pound)m
Profit earned for Ordinary Shareholders in accordance with UK GAAP	199	167
Adjustments to conform with US GAAP:		
Brands	-	-
Goodwill	21	21
Other intangible assets	(1)	(1)
Stock	(6)	(8)
Restructuring costs	(1)	(1)
Pension costs and other post-retirement benefits	(24)	(5)
Share compensation	(16)	(12)
Derivative instruments and debt translation	83	264
Franchise income	(2)	(4)
Other	(8)	1
Deferred taxation	(6)	(66)
Minority share of above adjustments	-	-
Net income in accordance with US GAAP	239	356
Net earnings per Ordinary Share:		
Basic	22.1p	33.1p
Diluted	22.0p	33.0p

	Six months to 28 February	Six months to 29 February 2004

	2005 (pound)m	(Restated) (pound)m
Shareholders' funds as reported in the Group balance sheet	708	443
Adjustments to conform with US GAAP:		
Brands	1,126	1,207
Goodwill	329	244
Other intangible assets	14	16
Associated undertakings	54	57
Stock	6	17
Pension and other post-retirement benefits	104	161
Share compensation	(16)	(6)
Proposed dividends	71	63
Derivative instruments and debt translation	37	8
Liabilities	(37)	(37)
Franchise income	(23)	(20)
Other	7	9
Deferred taxation	(451)	(493)
Minority share of above adjustments	-	-
Shareholders' equity in accordance with US GAAP	1,929	1,669

As reported within the 2004 Annual Report and Accounts the US GAAP reconciliation statements for the year ended 31 August 2003 were restated to correct the treatment of the foreign currency translation of certain assets and liabilities in connection with past business combinations. Accordingly, the reconciliation statements for the 6 months ended 29 February 2004 have also been restated.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

21 April, 2005

ALLIED DOMECQ PLC

By: /s/ Charles Brown

Name: Charles Brown
Title: Director, Corporate Secretariat
Deputy Company Secretary

ve to the first half of 2014 reflects a full six months of the benefit of the Enhanced Capital Notes (ECNs) exchange in April 2014.

Other income decreased by £2,459 million, or 28 per cent, to £6,313 million, largely due to a £1,570 million decrease in net trading income, reflecting lower income from the insurance businesses due to the impact of market conditions on the policyholder assets within those businesses, relative to the half-year to 30 June 2014; together with a £2,078 million reduction in insurance premium income and a £1,425 million improvement in other operating income. The market-driven movements in insurance trading income, together with the movement in insurance premium income, were largely offset in the Group's income statement by a £3,340 million, or 53 per cent, decrease in the insurance claims expense, to £2,998 million, and the impact on net interest income of amounts allocated to unit holders in Open-Ended Investment Companies. Net trading income within the Group's banking operations was a profit of £431 million compared to a profit of £587 million in the half-year to 30 June 2014, although this includes mark-to-market losses of £390 million arising from the equity conversion feature of the Group's ECNs, compared to a gain of £226 million in the half-year to 30 June 2014. Net fee and commission income was £236 million, or 19 per cent, lower at £991 million, principally as a result of the sale of Scottish Widows Investment Partnership, which completed on 31 March 2014. Insurance premium income was £2,078 million lower at £1,414 million; regular income of £3,373 million in the half-year to 30 June 2015 was partly offset by a charge of £1,959 million relating to the recapture by a third party insurer of a portfolio of policies previously reassured with the Group. This charge is offset by an equivalent credit within the insurance claims expense. Other operating income was £1,425 million higher at £890 million reflecting the fact that the half-year to 30 June 2014 included the loss of £1,362 million arising from the Group's exchange and cash redemption transactions relating to its ECNs. Excluding this loss, other operating income was £63 million, or 8 per cent, higher at £890 million in the half-year to 30 June 2015 compared to £827 million in the half-year to 30 June 2014 as a result of increased income from the movement in value of in-force insurance business.

Total operating expenses increased by £1,261 million, or 20 per cent, to £7,453 million; although the half-year to 30 June 2015 includes a charge of £665 million relating to the disposal of TSB, there was a pension curtailment credit of £822 million in the half-year to 30 June 2014 and the half-year to 30 June 2015 includes a charge in respect of regulatory provisions of £1,835 million compared to a charge of £1,100 million in the same period in 2014. Excluding these items, costs were £961 million, or 16 per cent, lower at £4,953 million. This decrease reflects a £711 million reduction in Simplification and TSB build and dual-running costs, together with the impact of business disposals and the ongoing benefits of the Group's efficiency programmes.

The Group increased the provision for expected PPI costs by a further £1,400 million in the first half of 2015. This brings the amount provided to £13,425 million. Total costs incurred in the second quarter were £876 million and as at 30 June 2015, £2,237 million or 17 per cent of the total provision, remained unutilised. The volume of reactive PPI complaints in the first half of 2015 fell by 8 per cent compared with the first half of 2014 but were marginally higher than the Q4 2014 run-rate and expectations. Reactive complaints continue to be driven by Claims Management Company (CMC) activity.

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

REVIEW OF RESULTS (continued)

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

The tax charge for the half-year to 30 June 2015 was £268 million (half-year to 30 June 2014: £164 million), representing an effective tax rate of 22.5 per cent; this compares to an effective tax rate of 19.0 per cent in the first half of 2014, which reflected tax exempt gains on the sales of businesses, including Scottish Widows Investment Partnership.

On the balance sheet, total assets were £32,064 million, or 4 per cent, lower at £822,832 million at 30 June 2015, compared to £854,896 million at 31 December 2014. Loans and advances to customers decreased by £30,277 million, or 6 per cent, to £452,427 million, principally reflecting the deconsolidation of TSB which lead to a decrease of £21,643 million. Customer deposits decreased by £30,472 million, to £416,595 million, principally reflecting the deconsolidation of TSB which lead to a decrease of £24,625 million. Shareholders' equity decreased by £1,079 million, or 2 per cent, from £43,335 million at 31 December 2014 to £42,256 million at 30 June 2015 as the retained profit for the period of £874 million was more than offset by the impact of the dividend paid to shareholders of £535 million together with a negative post-retirement defined benefit scheme remeasurement and other reserve movements. Non-controlling interests were £783 million or 65 per cent, lower at £430 million, as a result of the deconsolidation of TSB.

At 30 June 2015 the Group's wholesale funding remained stable at £116 billion (31 December 2014: £116 billion) of which £39 billion (31 December 2014: £41 billion) had a maturity of less than one year. The Group's total wholesale funding requirement remains broadly matched by its primary liquid asset portfolio, which is unchanged at £109 billion.

The Group's common equity tier 1 capital ratio increased to 13.3 per cent at the end of June 2015, after allowing for the interim dividend, from 12.8 per cent at the end of December 2014, driven by a combination of retained profit and a reduction in risk-weighted assets.

The Group has announced an interim dividend of 0.75 per share, amounting to £535 million. The Group has a strong capital position with a CET1 ratio of 13.3 per cent and a leverage ratio of 4.9 per cent.

The Group's aim is to have a dividend policy that is both progressive and sustainable. The Group recommenced payment at the full year and, as previously indicated, expects ordinary dividends to increase over the medium term with a dividend payout ratio of at least 50 per cent of sustainable earnings. In addition, going forward the Board will give due consideration, subject to the circumstances at the time, to the distribution of surplus capital through the use of special dividends or share buy-backs. Surplus capital represents capital over and above the amount management wish to retain to grow the business, meet regulatory requirements and cover uncertainties. This amount of retained capital is likely to vary from time to time depending on circumstances, but is currently around 12 per cent plus an amount broadly equivalent to a further year's ordinary dividend.

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

Underlying basis

	Half-year to 30 June 2015	Half-year to 30 June 2014	Half-year to 31 Dec 2014
	£ million	£ million	£ million
Retail	1,839	1,710	1,518
Commercial Banking	1,193	1,156	1,050
Consumer Finance	539	534	476
Insurance	584	461	461
Other	228	(42)	432
Underlying profit before tax	4,383	3,819	3,937

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 59 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.

GROUP PROFIT RECONCILIATIONS

	Half-year to 30 June 2015	Half-year to 30 June 2014	Half-year to 31 Dec 2014
	£m	£m	£m
Underlying profit	4,383	3,819	3,937
Asset sales	(52)	94	44
Liability management	(6)	(1,376)	(10)
Own debt volatility	(333)	225	173
Other volatile items	36	(73)	(39)
Volatility arising in insurance business	18	(122)	(106)
Fair value unwind	(77)	(315)	(214)
Simplification and TSB build and dual running costs	(117)	(828)	(696)
Charge relating to TSB disposal	(660)	-	-
Payment protection insurance provision	(1,400)	(600)	(1,600)
Other conduct provisions	(435)	(500)	(425)
Past service pensions credit	-	710	-
Amortisation of purchased intangibles	(164)	(171)	(165)
Profit before tax – statutory	1,193	863	899

Asset sales

Asset sales comprise the gains and losses on asset disposals (half-year to 30 June 2015: loss of £52 million; half-year to 30 June 2014: gain of £94 million), principally of assets which were outside of the Group's risk appetite.

Liability management

Losses of £6 million arose in the half-year to 30 June 2015 (half-year to 30 June 2014: £14 million) on transactions undertaken as part of the Group's management of its wholesale funding and capital. In March and April of 2014, the Group issued £5.35 billion of AT1 securities in exchange for £5.0 billion (nominal) of ECNs, giving rise to further liability management losses of £1,362 million in the first half of 2014.

Own debt volatility

Own debt volatility includes a loss of £390 million (half-year to 30 June 2014: gain of £226 million) relating to the change in fair value of the equity conversion feature of the Enhanced Capital Notes, which principally reflects the ongoing amortisation of the value of the conversion feature over its life. Own debt volatility also includes a £53 million gain (half-year to 30 June 2014: £25 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 £5 million (a charge of £127 million was incurred in the first half of 2014). Other volatile items also include a positive net derivative valuation adjustment of £31 million (half-year to 30 June 2014: gain of £54 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 increased the Group's statutory profit by £18 million in the first half of 2015; this compares to negative insurance volatility of £122 million in the first half of 2014.

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.

Simplification and TSB costs

Simplification programme costs were £32 million (half-year to 30 June 2014: £519 million); and TSB build and dual running costs were £85 million (half-year to 30 June 2014: £309 million).

Charge relating to TSB disposal

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

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

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

Payment protection insurance (PPI)

The Group increased the provision for expected PPI costs by a further £1.4 billion in the first half of 2015. This brings the total amount provided to £13.4 billion, of which £2.2 billion remains unutilised. The unutilised provision comprises elements to cover the Past Business Review (PBR), remediation activity and future reactive complaints including associated administration costs.

The Past Business Review activity is nearing completion, with no further provisions taken in the first half. The Group has mailed 98 percent of the total PBR scope and the remaining 2 per cent of customers are expected to be mailed by the end of 2015.

The Group continues to progress with remediation. At the end of 2014, the Group had identified approximately 1.2 million previously defended and redressed cases for re-review. During the first half the scope of the programme has been extended by 0.2 million to approximately 1.4 million cases. The Group has now completed the review of 96 per cent of previously defended cases, which were prioritised given their complexity and the level of potential redress required. The remaining scope, including the review of previously redressed cases, is expected to be substantially completed by the end of the year. The changes in the scope of the programme, together with higher overturn and redress rates, has resulted in an additional provision of approximately £0.4 billion in the second quarter.

GROUP PROFIT RECONCILIATIONS (continued)

The volume of reactive PPI complaints in the first half of 2015 fell by 8 per cent compared with the first half of 2014, but was marginally higher than the fourth quarter 2014 run-rate and above expectations. Reactive complaints continue to be driven by Claims Management Company (CMC) activity. Higher than expected average redress, coupled with the revised forecast of complaint volumes and associated operational costs accounts for £1.0 billion of the provision taken in the second quarter.

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

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

Other conduct provisions

In the first half of 2015, the Group incurred a further charge of £435 million in respect of a number of matters affecting the Retail, Commercial Banking and Consumer Finance divisions. Within this total, £318 million of provisions related to potential claims and remediation in respect of products sold through the branch network and continuing investigation of matters highlighted through industry wide regulatory reviews, as well as legacy product sales and historical systems and controls such as those governing legacy incentive schemes. This includes £175 million in respect of complaints relating to Packaged Bank Accounts. In addition, the charge included the previously announced settlement of £117 million that the Group reached with the Financial Conduct Authority with regard to aspects of its PPI complaint handling process during the period March 2012 to May 2013.

Past service pensions credit

In 2014, the Group reviewed its defined benefit pension arrangements as part of a wider review of the pay, benefits and reward it offers to employees. As a result, the Group decided to reduce the cap on the increases in pensionable pay used in calculating the pension benefit, from 2 per cent to 0 per cent with effect from 2 April 2014. This change and other actions, which are expected to result in a reduced level of volatility in the value of the Group's defined benefit pension schemes in the future, resulted in a £710 million credit in the income statement in the half-year to 30 June 2014.

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 £164 million in the half-year to 30 June 2015 (half-year to 30 June 2014: £171 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.

DIVISIONAL HIGHLIGHTS

RETAIL

Retail offers a broad range of financial service products, including current accounts, savings, personal loans and mortgages, to UK personal customers, including Wealth and small business customers. It is also a distributor of insurance, protection and credit cards, and a range of long-term savings and investment products. Retail's 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. Retail will maintain its 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

· Continued development of our digital capability. Our online user base has increased to over 11 million customers, with over 5.9 million active mobile users.

· Continued to attract new customers through positive switching activity, particularly through the Halifax challenger brand which has attracted around 120,000 customers in the first half of 2015.

· Club Lloyds proposition has been strengthened by the addition of new home insurance and cards offers, helping to attract a further 200,000 customers in the first half of 2015.

· Developed a market leading Young Savers proposition, with around 250,000 children's savings accounts opened in the first half of 2015, helping develop a savings culture in young people and allowing us to start building long lasting relationships with these customers.

· Achieved £16 billion of gross new mortgage lending in in the first half of 2015. Launched a new online application process that allows customers to reach Agreement in Principle to borrow, improving efficiency for both customers and the business.

· On track to deliver our lending commitment to first-time buyers, providing 1 in 4 mortgages. Retail continues to be a leading supporter of the UK government's Help to Buy scheme, with lending of £2.5 billion under the mortgage guarantee element of the scheme since launch.

· Exceeded our lending commitment, supporting over 1 in 5 new business start-ups. Improved our proposition to small business customers, launching a range of new to market products and services.

· Enhanced proposition for investment customers, becoming the first UK Bank to offer investment advice through video-conferencing and screen sharing.

· Increased Net Promoter Scores across all channels in in the first half of 2015.

Financial performance

- Underlying profit increased 8 per cent to £1,839 million.
- Net interest income increased 7 per cent. Margin has increased 16 basis points to 2.44 per cent, driven by improved deposit margin and mix, more than offsetting reduced lending rates.
- Other income down 20 per cent. Lower protection income following the removal of face-to-face advised standalone protection roles in branches, lower wealth income following regulatory changes.
- Costs increased 4 per cent to £2,300 million, with operational efficiencies funding increased investment in the business.
- Impairment reduced 41 per cent to £163 million, driven by lower unsecured charges due to lower impaired loan and arrears balances. Secured coverage was broadly flat at 36 per cent.
- Return on risk-weighted assets increased 73 basis points driven by 3 per cent reduction to risk-weighted assets and 8 per cent increase to underlying profit.

Balance sheet

- Loans and advances to customers fell 1 per cent to £312.9 billion with the open mortgage book (excluding specialist mortgage book and Intelligent Finance) increasing 1 per cent versus June 2014.
- Customer deposits decreased 3 per cent to £278.2 billion, with more expensive tactical balances down 12 per cent to £33.2 billion, reflecting lower lending growth and actions to protect interest margins.
- Risk-weighted assets decreased by £1.8 billion to £65.9 billion, driven by an improvement in the credit quality of assets and a modest contraction to lending balances.

RETAIL (continued)

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	*Change %*	Half-year to 31 Dec 2014 £m	*Change %*
Net interest income	**3,743**	3,493	***7***	3,586	***4***
Other income	**559**	700	***(20)***	512	***9***
Total income	**4,302**	4,193	***3***	4,098	***5***
Costs	**(2,300)**	(2,207)	***(4)***	(2,257)	***(2)***
Impairment	**(163)**	(276)	***41***	(323)	***50***
Underlying profit	**1,839**	1,710	***8***	1,518	***21***
Banking net interest margin	**2.44%**	2.28%	***16bp***	2.29%	***15bp***
Asset quality ratio	**0.10%**	0.18%	***(8)bp***	0.20%	***(10)bp***
Return on risk-weighted assets	**5.55%**	4.82%	***73bp***	4.36%	***119bp***
Return on assets	**1.17%**	1.09%	***8bp***	0.95%	***22bp***

Key balance sheet items	**At 30 June 2015 £bn**	At 31 Dec 2014 £bn	*Change %*
Loans and advances excluding closed portfolios	**283.9**	284.7	*–*
Closed portfolios	**29.0**	30.5	*(5)*
Loans and advances to customers	**312.9**	315.2	*(1)*
Relationship balances	**245.0**	247.9	*(1)*
Tactical balances	**33.2**	37.6	*(12)*
Customer deposits	**278.2**	285.5	*(3)*
Total customer balances	**591.1**	600.7	*(2)*
Risk-weighted assets	**65.9**	67.7	*(3)*

COMMERCIAL BANKING

Commercial Banking supports UK businesses from SMEs to large corporates and financial institutions. It has a client led, low risk strategy targeting sustainable returns on risk weighted assets above 2 per cent by 2015 and more than 2.4 per cent by the end of 2017, whilst simplifying operating processes, building digital capability and maintaining capital discipline. Commercial Banking aims to be the best bank for clients, delivering a through-the-cycle relationship approach that provides affordable, simple and transparent finance, as well as support for complex needs and access to Government funding schemes.

Progress against strategic initiatives

- Increased lending to SMEs by 5 per cent supported by strong relationship banking and remain the largest net lender to SMEs under the Funding for Lending Scheme (FLS), with over £3 billion of gross FLS lending in the first half of 2015.

- Maintained lending to Mid Market clients in a declining market, delivering an improved local service with an overall increase in client advocacy and ongoing investment in relationship manager capability.

- Grown both SME and Mid Market client base and have committed over £735 million of funding support to UK manufacturing.

- Global Corporates was ranked first in Sterling capital markets financing of UK corporates in the first half of 2015, raising more than £1.8 billion for clients. It continues to help Britain prosper globally by providing UK clients with overseas capability and leveraging its considerable domestic capabilities in support of major international companies seeking a gateway into the UK.

- Financial Institutions (FI) actively supports the Financial Services industry in the UK, a sector critical to the success of the UK economy. Our leading FI franchise continued to deliver through deep sector expertise as illustrated by the growing number of lead financing roles, helping our clients to raise £30 billion of funding in the year to date.

- Strong deposit growth underpinned by continued investment in Transaction Banking platforms and further helped by the Group’s improving credit rating.

- Continued our commitment to Helping Britain Prosper, raising over £500 million through our Environmental, Social and Governance (ESG) programmes including the issuance of our second ESG bond for £250 million and launch of an ESG Term Deposit to finance SMEs, healthcare providers and renewable energy projects in the most economically disadvantaged areas of the UK.

- Supporting over £2.6 billion of UK national infrastructure financing including developing and leading the first CPI-linked bond in the sterling market, used by the Greater London Authority to partly fund the extension of the London Underground Northern Line; a development which is expected to lead to the creation of 24,000 new jobs and 18,000 new homes.

Financial performance

- Underlying profit of £1,193 million, up 3 per cent, driven by income growth and a significant reduction in impairments.

- Income increased by 2 per cent to £2,257 million, reflecting strong growth in our Core Client franchises, offset by lower revaluation income from Lloyds Development Capital (LDC).

- Net interest margin increased by 18 basis points to 2.81 per cent due to disciplined pricing of new lending and a continued reduction in funding costs as a result of attracting high quality transactional deposits in SME, Mid Markets and Global Corporates.

- Other income increased 4 per cent, driven by significant refinancing activity support provided to Global Corporate clients and increases in Mid Markets and Financial Institutions, offset by a reduction in LDC.

- Asset quality ratio of 0.04 per cent improved by 1 basis point, reflecting lower gross charges, improved credit quality and continued progress in executing the strategy of building a low risk commercial bank.

- Return on risk-weighted assets increased by 33 basis points to 2.29 per cent. We remain on target to deliver sustainable returns in excess of 2 per cent in 2015 and more than 2.40 per cent by the end of 2017.

Balance sheet

- Loans and advances to customers fell by 1 per cent to £100.2 billion with growth in SME offset by transfers to the Insurance division.

- Customer deposits increased by 5 per cent, with growth in all client segments.

- Risk-weighted assets decreased by £3.4 billion, reflecting continued optimisation of the balance sheet. Reductions in credit and market risk-weighted assets were the result of active portfolio management across Financial Markets and Global Corporates, and Market Risk model changes.

COMMERCIAL BANKING (continued)

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	***Change %***	Half-year to 31 Dec 2014 £m	***Change %***
Net interest income	**1,234**	1,234	–	1,246	***(1)***
Other income	**1,023**	984	***4***	972	***5***
Total income	**2,257**	2,218	***2***	2,218	***2***
Operating costs	**(1,043)**	(1,022)	***(2)***	(1,101)	***5***
Operating lease depreciation	**(14)**	(11)	***(27)***	(13)	***(8)***
Costs	**(1,057)**	(1,033)	***(2)***	(1,114)	***5***
Impairment	**(7)**	(29)	***76***	(54)	***87***
Underlying profit	**1,193**	1,156	***3***	1,050	***14***
Banking net interest margin	**2.81%**	2.63%	***18bp***	2.70%	***11bp***
Asset quality ratio	**0.04%**	0.05%	***(1)bp***	0.10%	***(6)bp***
Return on risk-weighted assets	**2.29%**	1.96%	***33bp***	1.88%	***41bp***
Return on assets	**1.06%**	1.01%	***5bp***	0.87%	***19bp***

Key balance sheet items	**At 30 June 2015 £bn**	At 31 Dec 2014 £bn	***Change %***
SME	**28.8**	27.9	***3***
Other	**71.4**	73.0	***(2)***
Loans and advances to customers	**100.2**	100.9	***(1)***
Customer deposits	**125.4**	119.9	***5***
Total customer balances	**225.6**	220.8	***2***
Risk-weighted assets	**102.8**	106.2	***(3)***

CONSUMER FINANCE

Consumer Finance aims to extend its market leadership in motor finance by building its digital capability and creating new propositions in both the Black Horse and Lex Autolease businesses. In Credit Cards, better use will be made of Group customer relationships and insight, with investment into digital strategic initiatives to seek growth within its current risk appetite from franchise customers, as well as a focus on attracting non-franchise customers.

Progress against strategic objectives

- Investing in our growth strategy:

  - Successfully launched the market's first direct-to-consumer, secured car finance proposition, providing a simple, digital hire purchase and personal contract purchase offering through online banking and mobile devices.

  - Further digital developments within Credit Cards improving our customers' experience, particularly within mobile. Significant improvements in our customer propositions, including a broadened, more competitive product range, along with improved switching and multiple product holding capabilities.

- Focus on new business in a competitive market:

  - 17 per cent growth in Black Horse new lending year-on-year with strong underlying business performance including the Jaguar Land Rover partnership, while leading the industry in embedding significant Consumer Credit regulatory change.

  - 6 per cent growth in Lex Autolease fleet size year-on-year with leads from the franchise up 14 per cent.

  - 21 per cent increase in Cards balance transfer volumes year-on-year from both new and existing customers and a net gainer from competitors.

  - 25 per cent growth in transaction volumes year-on-year within the Cardnet Acquiring solutions business, driven by increased activity from existing customers.

- Growing balances in under-represented markets:

  - UK Consumer Finance loan growth of 17 per cent year-on-year.

  - Growth in Credit Cards lending balances of 5 per cent year-on-year.

  - Black Horse lending up 33 per cent and Lex operating leases 10 per cent higher year-on-year.

- Customer satisfaction improved with increased Net Promoter Scores year-on-year across the UK businesses including a significant improvement in Credit Cards.

Financial performance

- Underlying profit up to £539 million, with new business volume driven income growth in Black Horse and Lex Autolease and reductions in impairments reflecting improved quality of the portfolio, offsetting an increase in costs largely reflecting investment in our growth strategy.

- Net interest income increased by 2 per cent to £658 million driven by strong growth across all lending businesses, partly offset by a 43 basis point reduction in net interest margin to 6.26 per cent including the impact of lower Euribor rates on the online deposit businesses. The lower margin underlies a shift towards higher quality and hence lower margin lending which in turn is consistent with the lower impairment charges being experienced.

- Increase in other income to £677 million as a result of the continued fleet growth in Lex Autolease in a competitive environment.

- Costs increased by 7 per cent to £756 million with operational efficiencies more than offset by investment in growth initiatives and increased operating lease depreciation as a result of growth in the Lex Autolease fleet.

- Impairment charges reduced by 49 per cent to £40 million, with an improvement in the asset quality ratio, driven by continued improvement in portfolio quality supported by the sale of recoveries assets in the Credit Cards portfolio.

- Return on risk-weighted assets in line with the prior year at 5.19 per cent with growth in underlying profit offset by a small increase in average risk-weighted assets.

Balance sheet

- Net lending increased by 4 per cent since December driven by Black Horse with growth of 18 per cent. In Credit Cards we have seen growth accelerate to 5 per cent year-on-year. Balances in the European businesses were down 8 per cent since December driven by foreign exchange rate movements.

- Operating lease assets up by 3 per cent since December to £3.2 billion reflecting growth in the Lex Autolease fleet.

- Customer deposits reduced by 24 per cent since December to £11.4 billion driven by deposit re-pricing activity in response to lower Euribor rates and foreign exchange rate movements.

- Risk weighted assets unchanged since December, with growth in net lending offset by active portfolio management and improvements in credit quality.

CONSUMER FINANCE (continued)

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	***Change*** %	Half-year to 31 Dec 2014 £m	***Change*** %
Net interest income	**658**	645	***2***	645	***2***
Other income	**677**	675	**–**	689	***(2)***
Total income	**1,335**	1,320	***1***	1,334	**–**
Operating costs	**(403)**	(389)	***(4)***	(373)	***(8)***
Operating lease depreciation	**(353)**	(319)	***(11)***	(348)	***(1)***
Costs	**(756)**	(708)	***(7)***	(721)	***(5)***
Impairment	**(40)**	(78)	***49***	(137)	***71***
Underlying profit	**539**	534	***1***	476	***13***
Banking net interest margin	**6.26%**	6.69%	***(43)bp***	6.30%	***(4)bp***
Asset quality ratio	**0.38%**	0.78%	***(40)bp***	1.30%	***(92)bp***
Impaired loans as a % of closing advances	**2.8%**	4.2%	***(1.4)pp***	3.4%	***(0.6)pp***
Return on risk-weighted assets	**5.19%**	5.20%	***(1)bp***	4.49%	***70bp***
Return on assets	**4.16%**	4.30%	***(14)bp***	3.79%	***37bp***

Key balance sheet items	**At 30 June 2015 £bn**	At 31 Dec 2014 £bn	***Change*** %
Loans and advances to customers	**21.8**	20.9	***4***
Of which UK	***17.3***	*16.0*	***8***
Operating lease assets	**3.2**	3.1	***3***
Total customer assets	**25.0**	24.0	***4***
Of which UK	***20.5***	*19.1*	***7***
Customer deposits	**11.4**	15.0	***(24)***
Total customer balances	**36.4**	39.0	***(7)***
Risk-weighted assets	**21.0**	20.9	**–**

INSURANCE

The Insurance division is committed to meeting the changing needs of our customers by working with our Group partners to provide a range of trusted and value for money products via multiple channels. Since it was founded 200 years ago Scottish Widows has been protecting what our customers value most and helping them plan financially for the future, currently with almost six million life and pensions customers and over £95 billion of funds under management.

Progress against strategic initiatives

- Corporate Pensions assets under management increased by £1.4 billion to £28.4 billion in the first half of the year following continued growth in contributions under auto enrolment. As a leading provider in this sector, Insurance is well positioned to benefit from the expected growth in the workplace savings market.
- Launched a new retirement planning website to inform and educate customers about the options and choices available to them in retirement. This provides customers with increased flexibility in how they access guidance on their retirement options. In the four months since launch more than 150,000 customers have utilised this site.
- Home Insurance sales through online channels continued to grow, supported by strong retention, following the decision taken to bring the underwriting in house. Continued investment in the Group's direct digital capability is expected to deliver a more flexible Home Insurance product later this year.
- Customer access to protection products has been extended with the launch of an online product which gives customers the opportunity to acquire life insurance through a quick and easy digital journey.
- Successfully executed a bulk annuity transaction with the Scottish Widows With-Profits fund. This represented a key stage in plans to participate in the growing and attractive defined benefit pensions scheme de-risking market via a bulk annuities offering.
- Continued optimisation of assets across the Group through the acquisition of attractive higher yielding assets from the Group to match long duration annuity liabilities. Total assets acquired to date are circa £5 billion.
- Increased focus on the core UK business with the agreed sale of the Isle of Man based Clerical Medical International insurance business.

Financial performance

- Underlying profit up 27 per cent to £584 million, primarily driven by the £98 million new business value of the bulk annuity transaction with the With-Profits fund.
- LP&I sales (PVNBP) increased by 25 per cent in the year, boosted by £2,386 million from the With-Profits fund annuity transaction. Excluding this, PVNBP fell by 26 per cent, driven by significant regulatory and market change.

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Operating cash generation increased by £11 million, to £391 million, primarily reflecting benefits from the acquisition of higher yielding assets more than offsetting the initial impact of the bulk annuity transaction with the With-Profits fund.

- General Insurance Gross Written Premiums (GWP) decreased 7 per cent, reflecting the competitive market environment and the run off of products closed to new customers.

Capital

- Estimated Pillar 1 capital surplus is £2.7 billion (Scottish Widows plc, £2.6 billion in 2014) and for Insurance Groups Directive is £3.1 billion (Insurance Group, £3.0 billion in 2014) with the changes in both Pillar 1 and IGD reflecting earnings in the first half of the year.

- Preparations are on track for Solvency II implementation on 1 January 2016. Implementation is expected to have a minimal impact on the Insurance division capital position given the anticipated impact of transitional arrangements.

- Plans are progressing well to simplify the corporate structure of the life insurance entities to deliver capital and simplification benefits.

INSURANCE (continued)

Performance summary

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	***Change %***	Half-year to 31 Dec 2014 £m	***Change %***
Net interest income	**(73)**	(64)	***(14)***	(67)	***(9)***
Other income	**1,025**	854	***20***	871	***18***
Total income	**952**	790	***21***	804	***18***
Costs	**(368)**	(329)	***(12)***	(343)	***(7)***
Underlying profit	**584**	461	***27***	461	***27***
Operating cash generation	**391**	380	***3***	357	***10***
UK LP&I sales (PVNBP)[1]	**5,837**	4,680	***25***	3,921	***49***
General Insurance total GWP[2]	**561**	604	***(7)***	593	***(5)***
General Insurance combined ratio	**73%**	80%	***(7)pp***	76%	***(3)pp***

1 Present value of new business premiums.
2 Gross written premiums.

Profit by product group

	Half-year to 30 June 2015						Half-year to 30 June 2014	Half-year to 31 Dec 2014
	Pensions & investments	Protection & retirement	Bulk annuities	General insurance	Other[1]	**Total**	Total	Total
	£m	£m	£m	£m	£m	**£m**	£m	£m
New business income	91	15	98	–	–	**204**	151	116
Existing business income	307	64	–	–	34	**405**	441	442
Long-term investment strategy	–	52	39	–	–	**91**	95	65
	(16)	66	–	–	10	**60**	(105)	(29)

Assumption changes and experience variances								
General Insurance income net of claims	–	–	–	192	–	**192**	208	210
Total income	**382**	**197**	**137**	**192**	**44**	**952**	790	804
Costs	(220)	(72)	(7)	(69)	–	**(368)**	(329)	(343)
Underlying profit	**162**	**125**	**130**	**123**	**44**	**584**	461	461
Underlying profit 30 June 2014[2]	144	141	–	138	38	461		

[1] 'Other' is primarily income from return on free assets, interest expense plus certain provisions.
[2] Full 2014 comparator tables for the profit and cash disclosures can be found on the Lloyds Banking Group investor site.

New business income has increased by £53 million, with the primary driver being a £98 million benefit from the bulk annuity transaction with the Scottish Widows With-Profits fund. This has been offset by a reduction in Protection income following the removal of face-to-face advised standalone protection roles in branches and a reduction in income from individual annuities following Pensions Freedom. Corporate pension income remained robust although decreased relative to significant sales in 2014 driven by auto enrolment.

The fall in existing business income reflects a reduction in the expected rate of return used to calculate the life and pensions income. The rate of return is largely set by reference to an average 15 year swap rate (rate of return 2.82 per cent in the first half of 2015 and 3.48 per cent in 2014).

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INSURANCE (continued)

Long-term investments strategy includes the benefit from the successful acquisition of a further £0.8 billion of higher yielding assets to match the long duration liabilities in both the standard annuity book as well as the newly acquired bulk annuity business.

Assumption changes and experience variances include a £40 million benefit from changes to assumptions on longevity reflecting experience in the annuity portfolio. The prior year included a one-off £100 million charge relating to the corporate pensions fee cap.

General Insurance income net of claims has fallen by £16 million, reflecting the run-off of products closed to new customers.

Costs are £39 million higher, reflecting significant investment spend in the first half of 2015 supporting our strategic growth initiatives and significant regulatory and change agendas.

Operating cash generation

	Half-year to 30 June 2015						Half-year to 30 June 2014	Half-year to 31 Dec 2014
	Pensions & investments £m	Protection & retirement £m	Bulk annuities £m	General insurance £m	Other £m	**Total £m**	Total £m	Total £m
Cash invested in new business	(91)	(17)	(105)	-	-	(213)	(153)	(135)
Cash generated from existing business	280	105	63	-	33	481	395	366
Cash generated from General Insurance	-	-	-	123	-	123	138	126
Operating cash generation[1]	189	88	(42)	123	33	391	380	357
Intangibles and other adjustments[2]	(27)	37	172	-	11	193	81	104
Underlying profit	162	125	130	123	44	584	461	461

Operating cash generation 30 June 2014	143	36	-	138	63	380

1 Derived from underlying profit by removing the effect of movements in intangible (non-cash) items and assumption changes. For 2015 reporting this measure has been refined to include the cash benefits from the 'long-term investments strategy'.

2 Intangible items include the value of in-force life business, deferred acquisition costs and deferred income reserves.

The Insurance business generated £391 million of operating cash in the first half of 2015, £11 million higher than the prior year. Within Protection & retirement, cash benefits of £53 million were recognised in respect of the successful acquisition of attractive higher yielding assets to match long duration annuity liabilities. Within Bulk annuities, the cash benefits from such transactions was £63 million, partially offsetting the initial strain of the bulk annuity transaction with the With-Profits fund contained within 'Cash invested in new business'. In addition, the sale of a reinsurance asset contributed £48 million to operating cash.

OTHER

Other comprises Run-off, Central items and the results of TSB.

RUN-OFF

	Half-year to 30 June 2015	Half-year to 30 June 2014	***Change***	Half-year to 31 Dec 2014	***Change***
	£m	£m	*%*	£m	*%*
Net interest income	**(19)**	(67)	***72***	(49)	***61***
Other income	**105**	260	***(60)***	191	***(45)***
Total income	**86**	193	***(55)***	142	***(39)***
Operating costs	**(74)**	(153)	***52***	(126)	***41***
Operating lease depreciation	**(7)**	(16)	***56***	(13)	***46***
Costs	**(81)**	(169)	***52***	(139)	***42***
Impairment	**32**	(324)		121	***(74)***
Underlying profit (loss)	**37**	(300)		124	***(70)***

Key balance sheet items	**At 30 June 2015**	At 31 Dec 2014	***Change***
	£bn	£bn	*%*
Loans and advances to customers	**12.2**	14.4	***(15)***
Total assets	**14.4**	16.9	***(15)***
Risk-weighted assets	**14.3**	16.8	***(15)***

- Run-off includes certain assets previously classified as non-core and the results and gains or losses on sale of businesses sold in 2014.

- The reduction in income and costs largely related to the sale of Scottish Widows Investment Partnership in the first quarter of 2014.

- The net release of impairment charge in the first half of 2015 reflected the reduction in the run-off book and improving economic conditions. This has led to a low level of new charges which have been more than offset by releases and write-backs. A breakdown of impairment is shown on page 33.

CENTRAL ITEMS

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Total underlying income	**36**	66	66
Costs	**38**	(34)	12
Impairment	**(1)**	–	(2)
Underlying profit	**73**	32	76

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

OTHER (continued)

TSB

The Group's results in 2015 include TSB for the first quarter only, following the agreement in March to sell the remaining stake in the business to Banco Sabadell.

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Underlying profit	**118**	226	232

ADDITIONAL INFORMATION

1. Banking net interest margin

Banking net interest margin is calculated by dividing banking net interest income by average interest-earning banking assets. A reconciliation of banking net interest income to Group net interest income showing the items that are excluded in determining banking net interest income follows:

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Banking net interest income – underlying basis	5,789	5,426	5,633
Insurance division	(73)	(64)	(67)
Other net interest income (including trading activity)	(1)	42	5
Net interest income – underlying basis excluding TSB	5,715	5,404	5,571
Asset sales and other items	(174)	(303)	(316)
TSB	192	400	386
Insurance gross up	(241)	(239)	(243)
Group net interest income – statutory	5,492	5,262	5,398

Average interest-earning banking assets exclude TSB and are calculated gross of related impairment allowances, and relate solely to customer and product balances in the banking businesses on which interest is earned or paid.

	Half-year to 30 June 2015 £bn	Half-year to 30 June 2014 £bn	Half-year to 31 Dec 2014 £bn
Average loans and advances (gross)	457.4	477.4	468.8
Non-banking assets and other adjustments[1]	(12.6)	(11.8)	(12.1)
Average interest-earning assets excluding TSB	444.8	465.6	456.7

[1] Other adjustments include assets that are netted for interest earning purposes and reverse repos.

2. Volatility arising in insurance businesses

The Group's statutory result before tax included positive volatility totalling £18 million compared to negative volatility of £122 million in 2014.

Volatility comprises the following:

	Half-year to 30 June 2015	Half-year to 30 June 2014	Half-year to 31 Dec 2014
	£m	£m	£m
Insurance volatility	(109)	(133)	(86)
Policyholder interests volatility	83	43	(26)
Total volatility	(26)	(90)	(112)
Insurance hedging arrangements	44	(32)	6
Total	18	(122)	(106)

ADDITIONAL INFORMATION (continued)

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. In 2015 the basis for calculating these expected returns has been enhanced to reflect 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 2015 of £109 million primarily reflects an adverse performance on cash investments in the period relative to the expected return and an increase in yields.

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 2015, the statutory results before tax included a credit to other income which relates to policyholder interests volatility totalling £83 million (first half of 2014: £43 million) relating to offsetting movements in equity, bond and gilt returns.

Insurance hedging arrangements

The Group purchased put option contracts in 2015 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 gain of £44 million was recognised in relation to these contracts in the first half of 2015.

3. Number of employees

	At 30 June 2015	At 31 Dec 2014
Retail	33,130	35,032
Commercial Banking	6,473	6,212
Consumer Finance	3,413	3,483
Insurance	1,963	2,015
Group operations, functions and run-off	33,274	32,407
TSB	-	7,685
	78,253	86,834
Agency staff, interns and scholars	(2,628)	(2,344)
Total number of employees (full-time equivalent)	75,625	84,490
Total number of employees excluding TSB		76,978

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 2014 Annual Report and Accounts, with any quantitative disclosures updated herein. Please refer to the Group's Annual Report on Form 20-F for the year ended 31 December 2014 for further detail on these risks.

Credit risk – Adverse changes in the economic and market environment or the credit quality of our counterparties and customers could reduce asset values; potentially increase write-downs and allowances for impairment losses thereby adversely impacting profitability.

Conduct risk – We face significant potential conduct risk, including selling products which do not meet customer needs; failing to deal with complaints effectively and exhibiting behaviours which do not meet market or regulatory standards.

Market risk – Key market risks include interest rate and credit spread in the Banking business, credit spread and equity in the Insurance business and the defined benefit pension schemes where asset and liability movements impact on our capital position. In addition, a Group hedge has been implemented to provide protection from Insurance equity volatility.

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

Capital risk – Future capital position is potentially at risk from a worsening macroeconomic environment, which could lead to adverse financial performance and deplete capital resources and/or increase capital requirements.

Funding and liquidity risk – Our funding and liquidity position is supported by a significant and stable customer deposit base. A deterioration in either our or the UK's credit rating, or a sudden and significant withdrawal of customer deposits could adversely impact our funding and liquidity position. In addition, the Group has a contingency funding plan providing management actions and strategies available in stressed conditions.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

Mitigating actions

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

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

Mitigating actions

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

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

Mitigating actions

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

CREDIT RISK PORTFOLIO

Significant reduction in impairments and impaired assets

- The impairment charge decreased by 75 per cent from £707 million to £179 million in the first half of 2015 compared to the first half of 2014. The impairment charge has decreased across all divisions.

- The reduction reflects lower levels of new impairment as a result of effective risk management, improving economic conditions and the continued low interest rate environment.

- The impairment charge also benefited from provision releases but at lower levels than seen during the first half of 2014.

- The impairment charge as a percentage of average loans and advances to customers improved to 0.09 per cent compared to 0.30 per cent during the first half of 2014.

- Impaired loans as a percentage of closing advances reduced to 2.7 per cent at 30 June 2015, from 2.9 per cent at 31 December 2014 driven by improvements in all divisions. Impaired loans reduced by £1,828 million during the period, mainly due to disposals, write-offs and lower levels of newly impaired loans.

Low risk culture and prudent risk appetite

- The Group is delivering sustainable lending growth by maintaining its lower risk origination discipline despite terms and conditions in the market being impacted by excess liquidity. The overall quality of the portfolio has improved over the last 12 months.

- The Group continues to deliver above market lending growth in SME whilst maintaining its prudent risk appetite.

- The Group continues to adopt a conservative stance across the Eurozone, maintaining close portfolio scrutiny and oversight. The Group has minimal direct exposure to Greece. Detailed contingency plans are in place and exposures to financial institutions domiciled in peripheral Eurozone countries remain modest and managed within tight risk parameters.

Re-shaping of the Group is fundamentally complete

- Run-off net external assets have reduced from £16,857 million to £14,411 million during the first half of 2015 in a capital accretive way.

- The Run-off portfolio now represents only 2.7 per cent of the overall Group’s loans and advances and poses substantially less downside risk to the Group. The remaining assets are the subject of frequent review, and are impaired to appropriate levels based on external evidence and internal reviews.

- The Group continues to reduce its exposure to Ireland with gross loans and advances further reduced by £1,258 million to £6,642 million gross (net £4,437 million) during the first half of 2015; due to disposals, write-offs and net repayments.

- The Irish wholesale portfolio remains significantly impaired at 91.5 per cent, with provision coverage of 85.8 per cent. Net exposure in Ireland wholesale has fallen to £572 million (31 December 2014: £956 million).

- The Irish Retail portfolio has reduced from £4,464 million at 31 December 2014 to £3,984 million at 30 June 2015.

CREDIT RISK PORTFOLIO (continued)

Impairment charge by division

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	***Change since 30 June 2014 %***	Half-year to 31 Dec 2014 £m
Retail:				
Secured	**49**	94	***48***	187
Loans and overdrafts	**102**	165	***38***	114
Other	**12**	17	***29***	22
	163	276	***41***	323
Commercial Banking:				
SME	**(4)**	5		10
Other	**11**	24	***54***	44
	7	29	***76***	54
Consumer Finance:				
Credit Cards	**21**	69	***70***	117
Asset Finance UK	**21**	8		22
Asset Finance Europe	**(2)**	1		(2)
	40	78	***49***	137
Run-off:				
Ireland retail	**(2)**	13		(19)
Ireland commercial real estate	**16**	56	***71***	11
Ireland corporate	**59**	182	***68***	65
Corporate real estate and other corporate	**(52)**	92		(120)
Specialist finance	**(25)**	30		(8)
Other	**(28)**	(49)	***(43)***	(50)
	(32)	324		(121)
Central items	**1**	–		2
Total impairment charge	**179**	707	***75***	395
Impairment charge as a % of average advances	**0.09%**	0.30%	***(21)bp***	0.17%

Total impairment charge comprises:

	Half-year	Half-year	Half-year

	to 30 June 2015 £m	to 30 June 2014 £m	to 31 Dec 2014 £m
Loans and advances to customers	**198**	705	380
Debt securities classified as loans and receivables	**(2)**	–	2
Available-for-sale financial assets	**–**	2	3
Other credit risk provision	**(17)**	–	10
Total impairment charge	**179**	707	395

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CREDIT RISK PORTFOLIO (continued)

Group impaired loans and provisions

At 30 June 2015	Loans and advances to customers £m	Impaired Loans £m	Impaired loans as % of closing advances %	Impairment provisions[1] £m	Impairment provision as % of impaired loans[2] %
Retail:					
Secured	**301,044**	**3,880**	**1.3**	**1,414**	**36.4**
Loans and overdrafts	**10,149**	**641**	**6.3**	**195**	**78.9**
Other	**3,775**	**280**	**7.4**	**48**	**19.0**
	314,968	**4,801**	**1.5**	**1,657**	**37.8**
Commercial Banking:					
SME	**29,016**	**1,352**	**4.7**	**264**	**19.5**
Other	**72,319**	**1,357**	**1.9**	**919**	**67.7**
	101,335	**2,709**	**2.7**	**1,183**	**43.7**
Consumer Finance:					
Credit Cards	**9,189**	**424**	**4.6**	**156**	**78.8**
Asset Finance UK	**8,386**	**154**	**1.8**	**117**	**76.0**
Asset Finance Europe	**4,516**	**45**	**1.0**	**21**	**46.7**
	22,091	**623**	**2.8**	**294**	**74.1**
Run-off:					
Ireland retail	**3,984**	**121**	**3.0**	**119**	**98.3**
Ireland commercial real estate	**1,411**	**1,326**	**94.0**	**1,151**	**86.8**
Ireland corporate	**1,247**	**1,105**	**88.6**	**935**	**84.6**
Corporate real estate and other corporate	**2,623**	**1,147**	**43.7**	**691**	**60.2**
Specialist finance	**4,942**	**530**	**10.7**	**366**	**69.1**
Other	**1,386**	**118**	**8.5**	**121**	**102.5**
	15,593	**4,347**	**27.9**	**3,383**	**77.8**
Reverse repos and other items[3]	**5,329**	**–**	**–**	**–**	**–**
Total gross lending	**459,316**	**12,480**	**2.7**	**6,517**	**55.1**
Impairment provisions	**(6,517)**				
Fair value adjustments[4]	**(372)**				
Total Group	**452,427**				

1 Impairment provisions include collective unimpaired provisions.

2 Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries (£394 million in Retail loans and overdrafts, £27 million in Retail other and £226 million in Consumer Finance credit cards).

3 Includes £5.1 billion (31 December 2014: £4.4 billion) of lower risk loans transferred from Commercial Banking and Retail divisions into Insurance division's shareholder funds to support the Insurance division's annuity portfolio.

4 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 the acquisition and assessing whether the remaining losses expected at the 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 £37 million for the period ended 30 June 2015 (30 June 2014: £90 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 is expected to reduce to zero over time.

CREDIT RISK PORTFOLIO (continued)

Group impaired loans and provisions (continued)

At 31 December 2014	Loans and advances to customers £m	Impaired Loans £m	Impaired loans as % of closing advances %	Impairment provisions[1] £m	Impairment provision as % of impaired loans[2] %
Retail:					
Secured	303,121	3,911	1.3	1,446	37.0
Loans and overdrafts	10,395	695	6.7	220	85.3
Other	3,831	321	8.4	68	23.1
	317,347	4,927	1.6	1,734	38.8
Commercial Banking:					
SME	28,256	1,546	5.5	398	25.7
Other	74,203	1,695	2.3	1,196	70.6
	102,459	3,241	3.2	1,594	49.2
Consumer Finance:					
Credit Cards	9,119	499	5.5	166	76.5
Asset Finance UK	7,204	160	2.2	112	70.0
Asset Finance Europe	4,950	61	1.2	31	50.8
	21,273	720	3.4	309	70.5
Run-off:					
Ireland retail	4,464	120	2.7	141	117.5
Ireland commercial real estate	1,797	1,659	92.3	1,385	83.5
Ireland corporate	1,639	1,393	85.0	1,095	78.6
Corporate real estate and other corporate	3,947	1,548	39.2	911	58.9
Specialist finance	4,835	364	7.5	254	69.8
Other	1,634	131	8.0	141	107.6
	18,316	5,215	28.5	3,927	75.3
TSB	21,729	205	0.9	88	42.9
Reverse repos and other items[3]	9,635				
Total gross lending	490,759	14,308	2.9	7,652	56.4
Impairment provisions	(7,652)				
Fair value adjustments	(403)				
Total Group	482,704				

1 Impairment provisions include collective unimpaired provisions.

2 Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries (£437 million in Retail loans and overdrafts, £26 million in Retail other and £282 million in Consumer Finance credit cards).

3 Includes £4.4 billion of lower risk loans (social housing, infrastructure and education) transferred from Commercial Banking division into Insurance division's shareholder funds to support the Group's annuity portfolio.

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CREDIT RISK PORTFOLIO (continued)

Retail

- The impairment charge was £163 million in the first half of 2015, a decrease of 41 per cent against the first half of 2014. Reductions were seen across all portfolios.

- The impairment charge, as a percentage of average loans and advances to customers, improved to 0.10 per cent in the first half of 2015 from 0.18 per cent in the first half of 2014.

- Impaired loans decreased by £126 million in the first half of 2015 to £4,801 million which represented 1.5 per cent of closing loans and advances to customers (31 December 2014: 1.6 per cent).

Secured

- The impairment charge was £49 million in the first half of 2015, a decrease of 48 per cent against the first half of 2014. The impairment charge as a percentage of average loans and advances to customers, improved to 0.03 per cent in the first half of 2015 from 0.06 per cent in the first half of 2014.

- Impaired loans reduced by £31 million in the first half of 2015 to £3,880 million. Impairment provisions as a percentage of impaired loans decreased to 36.4 per cent from 37.0 per cent at 31 December 2014.

- The value of mortgages greater than three months in arrears (excluding repossessions) decreased by £175 million to £6,169 million at 30 June 2015 compared to £6,344 million at 31 December 2014.

- The average indexed loan to value (LTV) on the mortgage portfolio at 30 June 2015 decreased to 45.9 per cent compared with 49.2 per cent at 31 December 2014. The percentage of closing loans and advances with an indexed LTV in excess of 100 per cent decreased to 1.2 per cent at 30 June 2015, compared with 2.2 per cent at 31 December 2014.

- The average LTV for new mortgages and further advances written in the first half of 2015 was 64.6 per cent compared with 64.8 per cent for 2014.

Loans and overdrafts

- The impairment charge was £102 million in the first half of 2015, a decrease of 38 per cent against the first half of 2014. The reduction was driven by a continued underlying improvement of portfolio quality supported by write-backs from the sale of recoveries assets.

- The impairment charge as a percentage of average loans and advances to customers, improved to 1.94 per cent in the first half of 2015 from 3.09 per cent in the first half of 2014.

Impaired loans reduced by £54 million in the first half of 2015 to £641 million representing 6.3 per cent of closing loans and advances to customers, compared with 6.7 per cent at 31 December 2014.

Retail secured and unsecured loans and advances to customers

	At 30 June 2015 £m	At 31 Dec 2014 £m
Mainstream	**226,174**	228,176
Buy-to-let	**54,172**	53,322
Specialist[1]	**20,698**	21,623
	301,044	303,121
Loans	**8,068**	8,204
Overdrafts	**2,081**	2,191
Wealth	**2,895**	2,962
Retail Business Banking	**880**	869
	13,924	14,226
Total	**314,968**	317,347

[1] Specialist lending has been closed to new business since 2009.

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 2015 Cases	Dec 2014 Cases	**June 2015 %**	Dec 2014 %	**June 2015 £m**	Dec 2014 £m	**June 2015 %**	Dec 2014 %
Mainstream	**36,556**	37,849	**1.6**	1.7	**3,960**	4,102	**1.8**	1.8
Buy-to-let	**5,147**	5,077	**1.1**	1.1	**651**	658	**1.2**	1.2
Specialist	**9,252**	9,429	**6.4**	6.3	**1,558**	1,584	**7.5**	7.3
Total	**50,955**	52,355	**1.8**	1.8	**6,169**	6,344	**2.0**	2.1

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

The stock of repossessions decreased to 601 cases at 30 June 2015 compared to 1,740 cases at 31 December 2014.

Period end and average LTVs across the Retail mortgage portfolios

At 30 June 2015	**Mainstream** %	**Buy-to-let** %	**Specialist** %	**Total** %	**Unimpaired** %	**Impaired** %
Less than 60%	**52.9**	**44.5**	**41.0**	**50.6**	**50.9**	**30.0**
60% to 70%	**21.1**	**29.3**	**21.2**	**22.5**	**22.6**	**18.1**
70% to 80%	**15.4**	**14.1**	**17.5**	**15.3**	**15.3**	**18.6**
80% to 90%	**7.6**	**8.9**	**12.3**	**8.2**	**8.1**	**13.9**
90% to 100%	**2.1**	**2.1**	**4.2**	**2.2**	**2.1**	**9.3**
Greater than 100%	**0.9**	**1.1**	**3.8**	**1.2**	**1.0**	**10.1**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Outstanding loan value (£m)	**226,174**	**54,172**	**20,698**	**301,044**	**297,164**	**3,880**

Average loan to value:[1]						
Stock of residential mortgages	**43.3**	**56.7**	**54.4**	**45.9**		
New residential lending	**65.0**	**62.7**	**n/a**	**64.6**		
Impaired mortgages	**55.3**	**74.4**	**67.3**	**59.9**		

At 31 December 2014	Mainstream %	Buy-to-let %	Specialist %	Total %	Unimpaired %	Impaired %
Less than 60%	44.6	32.4	31.4	41.5	41.7	22.5
60% to 70%	19.9	27.3	19.5	21.2	21.3	15.3
70% to 80%	18.5	21.8	19.8	19.2	19.2	17.8
80% to 90%	10.6	9.4	14.9	10.7	10.6	16.7
90% to 100%	4.5	6.8	8.7	5.2	5.2	11.9
Greater than 100%	1.9	2.3	5.7	2.2	2.0	15.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
Outstanding loan value (£m)	228,176	53,322	21,623	303,121	299,210	3,911
Average loan to value:[1]						
Stock of residential mortgages	46.3	61.3	59.2	49.2		
New residential lending	65.3	62.7	n/a	64.8		
Impaired mortgages	60.1	81.0	72.6	64.9		

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

CREDIT RISK PORTFOLIO (continued)

Commercial Banking

- The impairment charge was £7 million in the first half of 2015, 76 per cent lower than the £29 million in the first half of 2014. This has been driven by lower levels of new impairment as a result of effective risk management, improving economic conditions and the continued low interest rate environment.

- The charge also benefited from provision releases but at lower levels than seen during 2014.

- The obligor quality of the Commercial Banking lending portfolio is predominantly rated good or better. New business is generally of good quality and better than the overall back book average. Surplus market liquidity continues to lead to some relaxation of credit conditions in the marketplace, although the Group remains disciplined within its low risk appetite.

- The impairment charge as a percentage of average loans and advances improved to 0.04 per cent in the first half of 2015 from 0.05 per cent in the first half of 2014, and from 0.10 per cent for the half year to 31 December 2014.

- Impaired loans reduced by 16.4 per cent to £2,709 million at 30 June 2015 compared with 31 December 2014 (£3,241 million). Impaired loans as a percentage of closing loans and advances to customers reduced to 2.7 per cent from 3.2 per cent at 31 December 2014.

- Impairment provisions reduced to £1,183 million at 30 June 2015 (December 2014: £1,594 million) and includes collective unimpaired provisions of £277 million (December 2014: £338 million).

SME

- The SME Banking portfolio continues to grow within prudent credit risk appetite parameters. As a result of the Group's customer driven relationship management, net lending has increased 5 per cent since June 2014. This also reflects the Group's commitment to the UK economy and the Funding for Lending Scheme.

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

- There was a net release of £4 million compared to a net charge of £5 million in the first half of 2014. SME continues to benefit from provision releases which offset minimal gross charges incurred.

Other Commercial Banking

- Other Commercial Banking comprises £72,319 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 on the performance of the domestic economy. Overall credit quality remained stable.

- The Global Corporate portfolio continues to be predominantly investment grade focused and is performing well against the backdrop of a stable economic UK environment. The quality of the portfolio remains good and is managed within the bank's prudent agreed risk appetite.

- The real estate business within the Group's Mid Markets and Global Corporate portfolio is focused upon the larger end of the UK property market ranging from medium sized and substantial unquoted private real estate portfolios up to the publicly listed and funds sector. Portfolio credit quality remains good being underpinned by seasoned management teams with proven asset management skills. The number of new impaired connections is minimal and new business propositions continue to be written in line with agreed risk appetite.

- 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.

- Trading exposures continue to be predominantly short-term and/or collateralised with inter-bank activity mainly undertaken with fully acceptable investment grade counterparties.

- 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.

CREDIT RISK PORTFOLIO (continued)

Consumer Finance

- The impairment charge reduced by 49 per cent to £40 million in the first half of 2015 compared to £78 million in the first half of 2014. The reduction was driven by a continued underlying improvement of portfolio quality supported by write-backs from the sale of recoveries assets in the Credit Cards portfolio.
- Impaired loans decreased by £97 million in the first half of 2015 to £623 million which represented 2.8 per cent of closing loans and advances to customers (31 December 2014: 3.4 per cent).

Run-off

Ireland

- Within the Ireland book the most significant contribution to impaired loans is the Commercial Real Estate portfolio where 94.0 per cent of the portfolio is impaired. The impairment coverage ratio has increased to 86.8 per cent from 83.5 per cent at 31 December 2014, predominantly due to the impact of deleveraging activities. Net lending in Ireland Commercial Real Estate has reduced to £260 million (31 December 2014: £412 million).
- Total impaired loans within the Irish retail mortgage portfolio are broadly stable at £121 million (31 December 2014: £118 million). The average indexed loan to value (LTV) at 30 June 2015 increased to 89.5 per cent compared with 88.5 per cent at December 2014. The percentage of closing loans and advances with an indexed LTV in excess of 100 per cent decreased to 38.2 per cent at 30 June 2015, compared with 38.9 per cent at 31 December 2014.

Corporate real estate and other corporate

- This portfolio predominantly consists of UK real estate loans together with other Corporate loans relating to real estate sectors, supported by trading activities (such as hotels, housebuilders and care homes).
- The continuing proactive management by the specialist teams in line with improvement in real estate market conditions has enabled a number of write-backs on previously impaired loans during 2015, with a net impairment write-back of £52 million in the first half of 2015, compared to an impairment charge of £92 million in the first half of 2014.
- Net loans and advances reduced by £1,104 million, from £3,036 million to £1,932 million for the first six months of 2015 (36 per cent reduction versus 35 per cent for first six months of 2014) as the portfolio continues to reduce significantly ahead of expectations.

Specialist Finance

- Net loans and advances for the Specialist Finance Asset Based Run-off portfolio stood at £4,576 million at 30 June 2015 (gross £4,942 million), and include Ship Finance, Aircraft Finance and Infrastructure, with around half of the remaining lending in the lower risk leasing sector.

- The portfolio also includes a reducing Treasury Asset legacy investment portfolio, which together with operating leases, gives total net external assets of £6,226 million at 30 June 2015 (gross £6,592 million).

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CREDIT RISK PORTFOLIO (continued)

Run-off (continued)

Ireland retail mortgage LTV analysis

At 30 June 2015	**Unimpaired**		**Impaired**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**
Less than 60%	**878**	**22.7**	**17**	**14.1**	**895**	**22.5**
60% to 70%	**322**	**8.3**	**5**	**4.1**	**327**	**8.2**
70% to 80%	**373**	**9.7**	**6**	**5.0**	**379**	**9.5**
80% to 100%	**843**	**21.8**	**19**	**15.7**	**862**	**21.6**
100% to 120%	**842**	**21.8**	**16**	**13.2**	**858**	**21.5**
120% to 140%	**445**	**11.5**	**17**	**14.1**	**462**	**11.6**
Greater than 140%	**160**	**4.2**	**41**	**33.8**	**201**	**5.1**
Total	**3,863**	**100.0**	**121**	**100.0**	**3,984**	**100.0**
Average loan to value:						
Stock of residential mortgages						**89.5**
Impaired mortgages						**151.2**

At 31 December 2014	Unimpaired		Impaired		Total	
	£m	%	£m	%	£m	%
Less than 60%	979	22.5	18	15.2	997	22.4
60% to 70%	356	8.2	4	3.4	360	8.1
70% to 80%	425	9.8	4	3.4	429	9.6
80% to 100%	925	21.3	14	11.9	939	21.0
100% to 120%	933	21.5	15	12.7	948	21.2
120% to 140%	505	11.6	14	11.9	519	11.6
Greater than 140%	221	5.1	49	41.5	270	6.1
Total	4,344	100.0	118	100.0	4,462	100.0
Average loan to value:						
Stock of residential mortgages						88.5
Impaired mortgages						124.7

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 Note 54 of the Group's 2014 Annual Report and Accounts, pages 305 to 314.

Retail forbearance

At 30 June 2015, UK retail secured loans and advances currently or recently subject to forbearance were 1.3 per cent (31 December 2014: 1.4 per cent) of total UK retail secured loans and advances.

At 30 June 2015, unsecured retail loans and advances currently or recently subject to forbearance were 1.4 per cent (31 December 2014: 1.6 per cent) of total unsecured retail loans and advances. Further analysis of the forborne loan balances is set out below.

UK retail lending

	Total loans and advances which are currently or recently forborne		**Total current and recent forborne loans and advances which are impaired**[1]		**Impairment provisions as % of loans and advances which are currently or recently forborne**	
	At June 2015 £m	At Dec 2014 £m	**At June 2015 £m**	At Dec 2014 £m	**At June 2015 %**	At Dec 2014 %
UK secured lending:						
Temporary forbearance arrangements						
Reduced contractual monthly payment	**82**	146	**9**	29	**2.1**	6.0
Reduced payment arrangements	**428**	552	**55**	69	**4.4**	3.4
	510	698	**64**	98	**4.0**	4.0
Permanent treatments						

Repair and term extensions	**3,263**	3,696	**159**	168	**4.5**	3.5
Total	**3,773**	4,394	**223**	266	**4.4**	3.5
UK unsecured lending:						
Loans and overdrafts	**147**	162	**120**	139	**37.2**	39.4

1 £3,550 million of current and recent forborne UK Secured loans and advances were not impaired at 30 June 2015 (31 December 2014: £4,128 million). £27 million of current and recent forborne loans and overdrafts were not impaired at 30 June 2015 (31 December 2014: £23 million).

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CREDIT RISK PORTFOLIO (continued)

Commercial Banking forbearance

At 30 June 2015, £3,927 million (December 2014: £5,137 million) of total loans and advances were forborne of which £2,709 million (December 2014: £3,241 million) were impaired. The coverage ratio for forborne loans decreased from 31.0 per cent at 31 December 2014 to 30.1 per cent at 30 June 2015.

Unimpaired forborne loans and advances were £1,218 million at 30 June 2015 (December 2014: £1,896 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 2015 by type of forbearance:

	30 June 2015	31 Dec 2014
	£m	£m
Type of unimpaired forbearance:		
UK[1] exposures > £5m		
Covenants	**421**	1,018
Extensions	**333**	426
Multiple	**72**	6
	826	1,450
Exposures < £5m and other non-UK[1]	**392**	446
Total	**1,218**	1,896

[1] Based on location of the office recording the transaction.

Consumer Finance forbearance

At 30 June 2015, Consumer Credit Cards loans and advances currently or recently subject to forbearance were 2.6 per cent (31 December 2014: 2.6 per cent) of total Consumer Credit Cards loans and advances. At 30 June 2015, Asset Finance retail loans and advances on open portfolios currently subject to forbearance were 1.7 per cent (31 December 2014: 2.1 per cent) of total Asset Finance retail loans and advances.

Analysis of the forborne loan balances

	Total loans and advances which are forborne		**Total forborne loans and advances which are impaired[1]**		**Impairment provisions as % of loans and advances which are forborne**	
	30 June 2015	31 Dec 2014	**30 June 2015**	31 Dec 2014	**30 June 2015**	31 Dec 2014
	£m	£m	**£m**	£m	**%**	%
Consumer Credit Cards	**234**	234	**127**	140	**26.4**	29.1
Asset Finance	**103**	109	**52**	53	**25.8**	20.5

1 £158 million of current and recent forborne loans and advances (Consumer Credit Cards: £107 million, Asset Finance: £51 million) were not impaired at 30 June 2015 (31 December 2014: Consumer Credit Cards: £94 million, Asset Finance: £56 million).

CREDIT RISK PORTFOLIO (continued)

Run-off forbearance

Ireland commercial real estate and corporate

All loans and advances in Ireland commercial real estate and corporate are treated as forborne (30 June 2015: £2,658 million, 31 December 2014: £3,436 million). At 30 June 2015, £2,431 million (31 December 2014: £3,052 million) were impaired. The coverage ratio for forborne loans increased from 72.2 per cent at 31 December 2014 to 78.5 per cent at 30 June 2015.

Secured retail lending – Ireland

At 30 June 2015, Irish retail secured loans and advances currently or recently subject to forbearance were 5.3 per cent (31 December 2014: 6.3 per cent) of total Irish retail secured loans and advances. Further analysis of the forborne loan balances is set out below:

	Total loans and advances which are currently or recently forborne		**Total current and recent forborne loans and advances which are impaired**[1]		**Impairment provisions as % of loans and advances which are currently or recently forborne**	
	30 June 2015 £m	31 Dec 2014 £m	**30 June 2015 £m**	31 Dec 2014 £m	**30 June 2015 %**	31 Dec 2014 %
Ireland secured lending:						
Temporary forbearance arrangements						
Reduced payment arrangements	**35**	41	**26**	28	**35.2**	34.0
Permanent treatments						
Repair and term extensions	**175**	239	**10**	13	**9.8**	9.1
Total	**210**	280	**36**	41	**14.1**	12.7

1

£174 million of current and recent forborne loans and advances were not impaired at 30 June 2015 (31 December 2014: £239 million).

Corporate real estate, other corporate and Specialist Finance

At 30 June 2015, £1,725 million (31 December 2014: £1,998 million) of total loans and advances were forborne of which £1,677 million (31 December 2014: £1,912 million) were impaired. The coverage ratio for forborne loans increased from 58.3 per cent at 31 December 2014 to 61.3 per cent at 30 June 2015.

Unimpaired forborne loans and advances were £48 million at 30 June 2015 (December 2014: £86 million).

The table below sets out the Group's largest unimpaired forborne loans and advances (exposures over £5 million) as at 30 June 2015 by type of forbearance:

	30 June 2015 £m	31 Dec 2014 £m
Type of unimpaired forbearance		
UK[1] exposures > £5m		
Covenants	**6**	–
Extensions	**–**	47
Multiple	**24**	24
	30	71
Exposures < £5m and other non-UK[1]	**18**	15
Total	**48**	86

[1]Based on location of the office recording the transaction.

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FUNDING AND LIQUIDITY MANAGEMENT

The Group’s funding position has been significantly strengthened and the Group has transformed its balance sheet structure in recent years. As a result the Group has set a new loan to deposit ratio range of 105 per cent to 110 per cent, which the Group remained comfortably within during the first half of 2015. During this period the Group has also maintained the liquidity buffer at a broadly consistent level.

Total funded assets reduced by £25.3 billion to £468.1 billion. Loans and advances to customers, excluding reverse repos, reduced by £25.3 billion and customer deposits, excluding repos, decreased by £30.6 billion all primarily driven by the sale of TSB. Excluding TSB, loans and advances decreased by £3.7 billion with increased net lending in Consumer Finance offset by reductions in the run off portfolio. Customer deposits on an equivalent basis decreased by £6 billion with increases in Commercial Banking offset by reductions in retail tactical deposits and online deposits within Consumer Finance.

Wholesale funding has reduced by £0.5 billion to £116.0 billion, with the volume with a residual maturity less than one year remaining broadly stable at £38.9 billion (£41.1 billion at 31 December 2014). The Group’s term funding ratio (wholesale funding with a remaining life of over one year as a percentage of total wholesale funding) increased to 66 per cent (65 per cent at 31 December 2014).

During the first half of 2015 the Group’s term issuance costs have remained broadly in line with 2014 and significantly lower than previous years. Term wholesale funding demand has been lower in recent years as the Group contracted its balance sheet. The Group now has a stable and managed term wholesale funding programme, consistent with the stable balance sheet. Term funding volumes are expected to remain broadly consistent with 2015 over the next few years.

Standard and Poor’s, Moody’s and Fitch have now completed their reviews of Lloyds Bank's ratings following the UK implementation of the EU Bank Recovery and Resolution Directive. In all cases, Lloyds Bank’s ratings were either reaffirmed or upgraded due to the delivery of our strategy to be a low risk, customer focused UK bank and/or recognition of the protection Lloyds’ sizeable subordinated debt buffer provides to senior creditors. In particular, Fitch upgraded Lloyds Bank to ‘A+’ from ‘A’ and revised the outlook to ‘Stable’ from ‘Negative’. Moody’s affirmed Lloyds’ rating at ‘A1’ and improved the outlook to ‘Positive’ from ‘Rating Under Review Negative’. S&P affirmed Lloyds’ rating at ‘A’ and improved the outlook to ‘Stable’ from ‘Credit Watch Negative’. Following these rating actions, Lloyds Bank's median rating has improved to ‘A+’ (previously ‘A’). The effects of a potential downgrade from all three rating agencies are included in the Group liquidity stress testing.

The Liquidity Coverage Ratio (LCR) is due to become the Pillar 1 standard for liquidity in the UK from October 2015. Following finalisation of requirements from the PRA, the Group expects to meet the minimum requirements and has a robust and well governed reporting framework in place for both regulatory reporting and internal management information.

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 in the future, including in the event of a severe market dislocation.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Group funding position

	At 30 June	At 31 Dec	***Change***
	2015	2014	
	£bn	£bn	*%*
Funding requirement			
Loans and advances to customers[1]	**452.3**	477.6	***(5)***
Loans and advances to banks[2]	**4.8**	3.0	***60***
Debt securities	**1.6**	1.2	***33***
Reverse repurchase agreements	**–**	–	***–***
Available-for-sale financial assets – secondary[3]	**5.1**	8.0	***(36)***
Cash balances[4]	**4.3**	3.6	***19***
Funded assets	**468.1**	493.4	***(5)***
Other assets[5]	**253.1**	265.2	***(5)***
	721.2	758.6	***(5)***
On balance sheet primary liquidity assets[6]			
Reverse repurchase agreements	**0.5**	7.0	***(93)***
Balances at central banks – primary[4]	**63.4**	46.9	***35***
Available-for-sale financial assets – primary	**27.1**	48.5	***(44)***
Held-to-maturity financial assets – primary	**20.0**	–	
Trading and fair value through profit and loss	**(3.1)**	(6.1)	***(49)***
Repurchase agreements	**(6.3)**	–	
	101.6	96.3	***6***
Total Group assets	**822.8**	854.9	***(4)***
Less: other liabilities[5]	**(242.0)**	(240.3)	***1***
Funding requirement	**580.8**	614.6	***(5)***
Funded by			
Customer deposits[7]	**416.5**	447.1	***(7)***
Wholesale funding[8]	**116.0**	116.5	***–***
	532.5	563.6	***(6)***
Repurchase agreements	**0.3**	1.1	***(73)***
Total equity	**48.0**	49.9	***(4)***
Total funding	**580.8**	614.6	***(5)***

1 Excludes £0.1 billion (31 December 2014: £5.1 billion) of reverse repurchase agreements.

2 Excludes £18.3 billion (31 December 2014: £21.3 billion) of loans and advances to banks within the Insurance business and £0.4 billion (31 December 2014: £1.9 billion) of reverse repurchase agreements.

3 Secondary liquidity assets comprise a diversified pool of highly rated unencumbered collateral (including retained issuance).

4 Cash balances and balances at central banks – primary are combined in the Group's balance sheet.

5

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

6 Primary liquidity assets are PRA eligible liquid assets, including UK Gilts, US Treasuries, Euro AAA government debt, designated multilateral development bank debt and unencumbered cash balances held at central banks.

7 Excluding repurchase agreements at 30 June 2015 of £0.1 billion (31 December 2014: £nil).

8 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.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Reconciliation of Group funding to the balance sheet

At 30 June 2015	**Included in funding analysis**	**Repos**	**Fair value and other accounting methods**	**Balance sheet**
	£bn	**£bn**	**£bn**	**£bn**
Deposits from banks	**8.9**	**8.1**	**–**	**17.0**
Debt securities in issue	**84.0**	**–**	**(6.2)**	**77.8**
Subordinated liabilities	**23.1**	**–**	**(0.5)**	**22.6**
Total wholesale funding	**116.0**	**8.1**		
Customer deposits	**416.5**	**0.1**	**–**	**416.6**
Total	**532.5**	**8.2**		

At 31 December 2014	Included in funding analysis	Repos	Fair value and other accounting methods	Balance sheet
	£bn	£bn	£bn	£bn
Deposits from banks	9.8	1.1	–	10.9
Debt securities in issue	80.6	–	(4.4)	76.2
Subordinated liabilities	26.1	–	(0.1)	26.0
Total wholesale funding	116.5	1.1		
Customer deposits	447.1	–	–	447.1
Total	563.6	1.1		

Analysis of 2015 total wholesale funding by residual maturity

	Less than one month	**One to three months**	**Three to six months**	**Six to nine months**	**Nine months to one year**	**One to two years**	**Two to five years**	**More than five years**	**Total at 30 June 2015**	Total at 31 Dec 2014
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	£bn
Deposit from banks	**6.8**	**1.1**	**0.3**	**0.3**	**–**	**0.1**	**–**	**0.3**	**8.9**	9.8
Debt securities in issue:										
Certificates of deposit	**1.0**	**2.5**	**1.3**	**3.1**	**1.0**	**–**	**–**	**–**	**8.9**	6.8
Commercial paper	**2.4**	**2.6**	**0.3**	**0.4**	**0.2**	**–**	**–**	**–**	**5.9**	7.3
Medium-term notes[1]	**0.8**	**1.1**	**1.2**	**1.5**	**1.9**	**4.8**	**10.8**	**11.9**	**34.0**	29.2

Covered bonds	**1.2**	**–**	**–**	**–**	**1.2**	**6.7**	**4.5**	**10.6**	**24.2**	25.2
Securitisation	**0.5**	**1.3**	**2.0**	**1.1**	**0.6**	**2.7**	**1.8**	**1.0**	**11.0**	12.1
	5.9	**7.5**	**4.8**	**6.1**	**4.9**	**14.2**	**17.1**	**23.5**	**84.0**	80.6
Subordinated liabilities	**–**	**0.6**	**0.2**	**0.2**	**0.2**	**3.3**	**6.5**	**12.1**	**23.1**	26.1
Total wholesale funding[2]	**12.7**	**9.2**	**5.3**	**6.6**	**5.1**	**17.6**	**23.6**	**35.9**	**116.0**	116.5

[1] Medium-term notes include funding from the National Loan Guarantee Scheme (30 June 2015: £1.4 billion; 31 December 2014: £1.4 billion).

[2] 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.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Analysis of 2015 term issuance

	Sterling	**US Dollar**	**Euro**	**Other currencies**	**Total**
	£bn	**£bn**	**£bn**	**£bn**	**£bn**
Securitisation	**0.7**	**0.9**	**–**	**–**	**1.6**
Medium-term notes	**0.3**	**3.5**	**1.8**	**0.8**	**6.4**
Covered bonds	**1.5**	**–**	**–**	**–**	**1.5**
Private placements[1]	**0.7**	**1.3**	**1.3**	**–**	**3.3**
Subordinated liabilities	**–**	**–**	**–**	**–**	**–**
Total issuance	**3.2**	**5.7**	**3.1**	**0.8**	**12.8**

[1] Private placements include structured bonds and term repurchase agreements (repos).

Term issuance for the first half of 2015 totalled £12.8 billion with the majority across medium term notes and private placements. Utilisation of the UK government's Funding for Lending Scheme (FLS) has further underlined the Group's support to the UK economic recovery and the Group remains committed to passing the benefits of this low cost funding on to its customers. As of 30 June 2015, the Group had drawn £24 billion under the FLS. The maturities for the FLS are fully factored into the Group's funding plan.

Liquidity portfolio

At 30 June 2015, the Banking business had £109.0 billion (31 December 2014: £109.3 billion) of highly liquid unencumbered assets in its primary liquidity portfolio which are available to meet cash and collateral outflows and PRA regulatory requirements. A separate liquidity portfolio to mitigate Insurance liquidity risk is managed within the Insurance business. Primary liquid assets are broadly equivalent to the Group's total wholesale funding, and thus provides a substantial buffer in the event of continued market dislocation.

Primary liquidity	**At 30 June 2015**	At 31 Dec 2014	**Average 2015**	Average 2014
	£bn	£bn	**£bn**	£bn
Central bank cash deposits	**63.4**	46.9	**64.6**	62.3

Government/MDB bonds[1]	**45.6**	62.4	**47.6**	47.9
Total	**109.0**	109.3	**112.2**	110.2

Secondary liquidity	**At 30 June 2015 £bn**	At 31 Dec 2014 £bn	**Average 2015 £bn**	Average 2014 £bn
High-quality ABS/covered bonds[2]	**3.4**	3.9	**3.7**	3.6
Credit institution bonds[2]	**0.1**	0.9	**0.6**	1.4
Corporate bonds[2]	**0.2**	0.6	**0.5**	0.3
Own securities (retained issuance)	**16.4**	20.6	**17.8**	22.2
Other securities	**5.7**	5.7	**6.0**	5.5
Other[3]	**62.7**	67.5	**66.7**	74.1
Total	**88.5**	99.2	**95.3**	107.1
Total liquidity	**197.5**	208.5		

1 Designated multilateral development bank (MDB).
2 Assets rated A- or above.
3 Includes other central bank eligible assets.

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FUNDING AND LIQUIDITY MANAGEMENT (continued)

In addition the Banking business had £88.5 billion (31 December 2014: £99.2 billion) of secondary liquidity, the vast majority of which is eligible for use in a range of central bank or similar facilities and the Group routinely makes use of as part of its normal liquidity management practices. Future use of such facilities will be based on prudent liquidity management and economic considerations, having regard for external market conditions.

The entire primary liquidity portfolio and a subset of the secondary portfolio are LCR eligible. The Group considers diversification across geography, currency, markets and tenor when assessing appropriate holdings of primary and secondary liquid assets. This liquidity is managed as a single pool in the centre and is under the control of the function charged with managing the liquidity of the Group. It is available for deployment at immediate notice, subject to complying with regulatory requirements, and is a key component of the Group’s liquidity management process.

Encumbered assets

The Board and Group Asset & Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. At 30 June 2015, the Group had £134.7 billion (31 December 2014: £134.9 billion) of externally encumbered and £688.1 billion (31 December 2014: £720.0 billion) of unencumbered on balance sheet assets. Primarily the Group encumbers mortgages, lending and credit card receivables through the issuance programmes and tradable securities through securities financing activity. Refer to the 2014 Annual Report and Accounts for further details on how the Group classifies assets for encumbrance purposes.

CAPITAL MANAGEMENT

The Group continued to strengthen its Common Equity Tier 1 (CET1) ratio during the first half of 2015 through increased underlying profits and a reduction in risk-weighted assets. The positive impact of these items was partly offset by the interim dividend, conduct charges and the disposal of TSB.

- The CET1 ratio increased 0.5 percentage points from 12.8 per cent to 13.3 per cent.
- The leverage ratio has remained stable at 4.9 per cent.
- The transitional total capital ratio reduced 0.3 percentage points from 22.0 per cent to 21.7 per cent.

Regulatory capital developments

The regulatory capital framework within which the Group operates continues to be developed at global, European and UK levels focusing on RWA calibration, leverage and bail in requirements, examples of which include the following:

- At a global level the Basel Committee has issued consultation papers on the capital treatment of interest rate risk in the banking book (IRRBB) and on proposed revisions to the framework for the capital charge relating to Credit Valuation Adjustment (CVA) variability. We also await the outcome of the, now closed, consultations on proposed revisions to the Standardised Approach risk-weight framework in addition to initial proposals on the design of a new capital floors framework. In the meantime the fundamental review of the trading book (FRTB) is ongoing.
- At a European level the European Banking Authority (EBA) has issued recommendations about the CVA capital treatment, including the possible removal of EU exemptions and final draft Regulatory Technical Standards (RTS) on Prudent Valuation Adjustments (PVA) and the criteria for determining minimum requirements for own funds and eligible liabilities (MREL).
- In the UK the PRA is consulting on proposals for implementing the UK leverage ratio framework as recommended by the Financial Policy Committee. It has also recently finalised proposals to reform the Pillar 2 framework, including new approaches for determining Pillar 2A capital requirements and the setting of Pillar 2B capital requirements (the PRA buffer).

The Group continues to monitor these developments very closely, analysing the potential capital impacts to ensure the Group continues to maintain a strong capital position that exceeds the minimum regulatory requirements and the

Group’s risk appetite and is consistent with market expectations.

The Group is subject to Pillar 2A Individual Capital Guidance (ICG) from the PRA. This reflects a point in time estimate by the PRA, which may change over time, of the amount of capital that is needed in relation to risks not covered by Pillar 1. The Group’s underlying ICG remains unchanged over the half-year and as at 30 June 2015 equated to 3.9 per cent of risk-weighted assets, of which 2.2 per cent must be covered by CET1 capital. The 10 basis point increase in these percentages over the half-year is as a result of lower risk-weighted assets.

Capital position at 30 June 2015

The Group’s capital position as at 30 June 2015 is presented in the following section applying CRD IV transitional arrangements, as implemented in the UK by the PRA, and also on a fully loaded CRD IV basis.

CAPITAL MANAGEMENT (continued)

	Transitional		**Fully loaded**	
	At 30 June	At 31 Dec	**At 30 June**	At 31 Dec
Capital resources				
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Common equity tier 1				
Shareholders' equity per balance sheet	**42,256**	43,335	**42,256**	43,335
Adjustment to retained earnings for foreseeable dividends	**(535)**	(535)	**(535)**	(535)
Deconsolidation of insurance entities[1]	**(1,262)**	(824)	**(1,262)**	(824)
Adjustment for own credit	**116**	158	**116**	158
Cash flow hedging reserve	**(429)**	(1,139)	**(429)**	(1,139)
Other adjustments	**239**	333	**239**	333
	40,385	41,328	**40,385**	41,328
less: deductions from common equity tier 1				
Goodwill and other intangible assets	**(1,779)**	(1,875)	**(1,779)**	(1,875)
Excess of expected losses over impairment provisions and value adjustments	**(394)**	(565)	**(394)**	(565)
Removal of defined benefit pension surplus	**(718)**	(909)	**(718)**	(909)
Securitisation deductions	**(211)**	(211)	**(211)**	(211)
Significant investments[1]	**(2,575)**	(2,546)	**(2,575)**	(2,546)
Deferred tax assets	**(4,551)**	(4,533)	**(4,551)**	(4,533)
Common equity tier 1 capital	**30,157**	30,689	**30,157**	30,689
Additional tier 1				
Other equity instruments	**5,355**	5,355	**5,355**	5,355
Preference shares and preferred securities[2]	**4,528**	4,910	**–**	-
Transitional limit and other adjustments	**(706)**	(537)	**–**	-
	9,177	9,728	**5,355**	5,355
less: deductions from tier 1				
Significant investments[1]	**(1,180)**	(859)	**–**	–
Total tier 1 capital	**38,154**	39,558	**35,512**	36,044
Tier 2				
Other subordinated liabilities[2]	**18,111**	21,132	**18,111**	21,132
Deconsolidation of instruments issued by insurance entities[1]	**(2,133)**	(2,522)	**(2,133)**	(2,522)
Adjustments for non-eligible instruments	**(467)**	(675)	**(1,095)**	(1,857)
Amortisation and other adjustments	**(3,224)**	(3,738)	**(4,840)**	(5,917)
	12,287	14,197	**10,043**	10,836
Eligible provisions	**475**	333	**475**	333
less: deductions from tier 2				
Significant investments[1]	**(1,759)**	(1,288)	**(2,939)**	(2,146)
Total capital resources	**49,157**	52,800	**43,091**	45,067
Risk-weighted assets	**226,980**	239,734	**226,980**	239,734

Common equity tier 1 capital ratio	**13.3%**	12.8%	**13.3%**	12.8%
Tier 1 capital ratio	**16.8%**	16.5%	**15.6%**	15.0%
Total capital ratio	**21.7%**	22.0%	**19.0%**	18.8%

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

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

CAPITAL MANAGEMENT (continued)

The key differences between the transitional capital calculation as at 30 June 2015 and the fully loaded equivalent are as follows:

- Capital securities that previously qualified as tier 1 or tier 2 capital, but do not fully qualify under CRD IV, can be included in tier 1 or tier 2 capital (as applicable) up to specified limits which reduce by 10 per cent per annum until 2022.

- The significant investment deduction from AT1 will gradually transition to tier 2.

The movements in the transitional CET1, AT1, tier 2 and total capital positions in the period are provided below.

	Common Equity Tier 1 £m	**Additional Tier 1 £m**	**Tier 2 £m**	**Total capital £m**
At 31 December 2014	30,689	8,869	13,242	52,800
Profit attributable to ordinary shareholders[1]	**600**			**600**
Eligible minority interest	**(470)**			**(470)**
Adjustment to retained earnings for foreseeable dividends	**(535)**			**(535)**
Movement in treasury shares and employee share schemes	**(269)**			**(269)**
Pension movements:				
Removal of defined benefit pension surplus	**191**			**191**
Movement through other comprehensive income	**(242)**			**(242)**
Available-for-sale reserve	**(67)**			**(67)**
Deferred tax asset	**(18)**			**(18)**
Goodwill and other intangible assets	**96**			**96**
Excess of expected losses over impairment provisions and value adjustments	**171**			**171**
Significant investments	**(29)**	**(321)**	**(471)**	**(821)**
Eligible provisions			**142**	**142**
Subordinated debt movements:				
Repurchases, redemptions and other		**(551)**	**(1,910)**	**(2,461)**
Other movements	**40**			**40**
At 30 June 2015	**30,157**	**7,997**	**11,003**	**49,157**

[1] Profits made by Insurance are removed from CET1 capital. However, when dividends are paid to the Group by Insurance these are recognised through CET1 capital.

CET1 capital resources have reduced by £532 million in the period, largely due to the removal of eligible minority interest related to TSB, the interim dividend and movements in treasury shares and employee share schemes. The reductions were partially offset by profit attributable to ordinary shareholders, reflecting underlying profit offset by conduct charges and the disposal of TSB, and a reduction in the excess of expected losses over impairment provisions and value adjustments.

AT1 capital resources have reduced by £872 million in the period, primarily reflecting the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments and an increase in significant investments.

Tier 2 capital resources have reduced by £2,239 million in the period largely reflecting calls and redemptions, amortisation of dated instruments, foreign exchange movements and an increase in significant investments, partially offset by an increase in eligible provisions.

CAPITAL MANAGEMENT (continued)

Risk-weighted assets	**At 30 June 2015 £m**	At 31 Dec 2014 £m
Foundation Internal Ratings Based (IRB) Approach	**70,367**	72,393
Retail IRB Approach	**67,529**	72,886
Other IRB Approach	**17,385**	15,324
IRB Approach	**155,281**	160,603
Standardised Approach	**21,117**	25,444
Contributions to the default fund of a central counterparty	**280**	515
Credit risk	**176,678**	186,562
Counterparty credit risk	**8,006**	9,108
Credit valuation adjustment risk	**2,172**	2,215
Operational risk	**26,279**	26,279
Market risk	**3,629**	4,746
Underlying risk-weighted assets	**216,764**	228,910
Threshold risk-weighted assets[1]	**10,216**	10,824
Total risk-weighted assets	**226,980**	239,734

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

Risk-weighted assets movement by key driver	**Credit risk[1]** £m	**Counter party credit risk[1]** £m	**Market risk** £m	**Operational risk** £m	**Total** £m
Risk-weighted assets at 31 December 2014	186,562	11,323	4,746	26,279	228,910
Management of the balance sheet	**(1,849)**	**(572)**	**(309)**	**–**	**(2,730)**
Disposals	**(5,818)**	**(2)**	**–**	**–**	**(5,820)**
External economic factors	**(3,185)**	**(491)**	**(19)**	**–**	**(3,695)**
Model and methodology changes	**1,054**	**(108)**	**(789)**	**–**	**157**
Regulatory policy change	**–**	**–**	**–**	**–**	**–**
Other	**(86)**	**28**	**–**	**–**	**(58)**
Risk-weighted assets	**176,678**	**10,178**	**3,629**	**26,279**	**216,764**
Threshold risk-weighted assets					**10,216**
Total risk-weighted assets					**226,980**

1

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

CAPITAL MANAGEMENT (continued)

The risk-weighted assets movement tables provide analyses of the movement in risk-weighted assets in the period by risk type and an insight into the key drivers of the movements. The key driver analysis is compiled on a monthly basis through the identification and categorisation of risk-weighted asset movements and is subject to management judgment.

Credit risk-weighted assets reduced from £186.6 billion to £176.7 billion driven by the following key movements:

- Management of the balance sheet includes risk-weighted asset movements arising from new lending and asset run-off. During the first half of 2015, risk-weighted assets decreased by £1.8 billion as a result of the active management of lending portfolios, partially offset by targeted lending growth.
- Disposals include risk-weighted asset reductions arising from the sale of assets, portfolios and businesses. Disposals reduced risk-weighted assets by £5.8 billion, primarily driven by the completion of the sale of TSB as well as other small disposals and related reductions in sundry debtors.
- External economic factors capture movements driven by changes in the economic environment. The reduction in risk-weighted assets of £3.2 billion is mainly due to improvements in credit quality and favourable foreign exchange rate movements.
- Model and methodology changes include the movement in risk-weighted assets arising from new model implementation, model enhancement and changes in credit risk approach applied to certain portfolios. The increase in risk-weighted assets of £1.1 billion is principally driven by an update to models in Commercial Banking.

Counterparty credit risk reductions of £1.1 billion reflect reduced mark to market valuations and trade compressions.

Market risk-weighted assets reduced by £1.1 billion, reflecting continued optimisation of the balance sheet as a result of active portfolio management across Financial Markets, and market risk model changes.

Enhanced Capital Notes (ECNs)

In 2009 the Group undertook a significant capital raising exercise which included the issuance of approximately £8.3 billion of ECNs. Approximately £3.3 billion of these ECNs remain outstanding.

Upon issuance, the ECNs contributed to going concern capital in stress tests applied by the regulator and were structured with a conversion trigger in excess of the then minimum regulatory requirements and stress test threshold. However, given subsequent changes to regulatory capital rules, including changes in the definition of core capital, the conversion trigger for the ECNs is substantially below today's minimum regulatory requirements and stress test thresholds. The terms of the ECNs provide the Group with the right to call any series of these ECNs at par or a make-whole price in the event that they cease to be taken into account as core capital for the purposes of any stress test applied by the Prudential Regulation Authority (PRA) (a Capital Disqualification Event).

After the ECNs were not taken into account for the purpose of core capital for the 2014 PRA stress test, the Group announced on 16 December 2014 that it intended to approach the PRA to seek permission to redeem certain series of ECNs. On 31 March 2015 such permission was received from the PRA under Article 78 of the Capital Requirements Regulation (Regulation 575/2013/EU). The Group also notified investors that the Trustee intended to seek a declaratory judgment in respect of the interpretation of certain terms of the ECNs.

On 3 June 2015, the Chancery Division of the High Court handed down its judgment in respect of the ECNs, in which it found that a Capital Disqualification Event had not occurred. The Group has filed an appeal with the Court of Appeal and the hearing is expected to take place in the week commencing 24 August 2015.

CAPITAL MANAGEMENT (continued)

Leverage ratio

In January 2015 the existing CRD IV rules on the calculation of the leverage ratio were amended to align with the European Commission's interpretation of the revised Basel III leverage ratio framework. The Group's leverage ratio has been calculated in accordance with the amended CRD IV rules on leverage.

	Fully loaded	
	At 30 June	At 31 Dec
	2015	2014[1]
	£m	£m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	**30,157**	30,689
Additional tier 1 capital	**5,355**	5,355
Total tier 1 capital	**35,512**	36,044
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	**27,980**	36,128
Securities financing transactions (SFTs)	**33,668**	43,772
Loans and advances and other assets	**761,184**	774,996
Total assets	**822,832**	854,896
Deconsolidation adjustments[2]		
Derivative financial instruments	**(1,421)**	(1,663)
Securities financing transactions (SFTs)	**1,908**	1,655
Loans and advances and other assets	**(145,491)**	(144,114)
Total deconsolidation adjustments	**(145,004)**	(144,122)
Derivatives adjustments		
Adjustment for regulatory netting	**(18,515)**	(24,187)
Adjustment to cash collateral	**1,058**	(1,024)
Net written credit protection	**309**	425
Regulatory potential future exposure	**12,407**	12,722
Total derivatives adjustments	**(4,741)**	(12,064)
Counterparty credit risk add-on for SFTs	**1,022**	1,364
Off-balance sheet items	**55,695**	50,980

Regulatory deductions and other adjustments	**(9,636)**	(10,362)
Total exposure	**720,168**	740,692
Leverage ratio	**4.9%**	4.9%

[1] Restated to align with the amended CRD IV rules on leverage implemented in January 2015.

[2] Deconsolidation adjustments predominantly reflect the deconsolidation of assets related to Group subsidiaries that fall outside the scope of the Group's regulatory capital consolidation (primarily the Group's insurance entities).

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CAPITAL MANAGEMENT (continued)

Key movements

The Group's fully loaded leverage ratio remained stable at 4.9 per cent with the impact of the reduction in tier 1 capital entirely offset by the £20.5 billion reduction in the exposure measure, the latter largely reflecting the reduction in balance sheet assets arising, in part, from the disposal of TSB.

The derivatives exposure measure, representing derivative financial instruments per the balance sheet net of deconsolidation and derivatives adjustments, reduced by £0.6 billion primarily reflecting market movements and trade compressions offset by adjustments for ineligible cash collateral.

The SFT exposure measure, representing SFTs per the balance sheet inclusive of deconsolidation adjustments and counterparty credit risk add-on, reduced by £10.2 billion reflecting active balance sheet management, reduced trading volumes and further application of eligible on-balance sheet netting.

Off-balance sheet items increased by £4.7 billion, partly reflecting new mortgage offers placed during the period.

STATUTORY INFORMATION

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED INCOME STATEMENT

	Note	**Half-year to 30 June 2015 £ million**	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Interest and similar income		**8,975**	9,728	9,483
Interest and similar expense		**(3,483)**	(4,466)	(4,085)
Net interest income		**5,492**	5,262	5,398
Fee and commission income		**1,598**	1,836	1,823
Fee and commission expense		**(607)**	(609)	(793)
Net fee and commission income		**991**	1,227	1,030
Net trading income		**3,018**	4,588	5,571
Insurance premium income		**1,414**	3,492	3,633
Other operating income		**890**	(535)	226
Other income		**6,313**	8,772	10,460
Total income		**11,805**	14,034	15,858
Insurance claims		**(2,998)**	(6,338)	(7,155)
Total income, net of insurance claims		**8,807**	7,696	8,703
Regulatory provisions		**(1,835)**	(1,100)	(2,025)
Other operating expenses		**(5,618)**	(5,092)	(5,668)
Total operating expenses	3	**(7,453)**	(6,192)	(7,693)
Trading surplus		**1,354**	1,504	1,010
Impairment	4	**(161)**	(641)	(111)
Profit before tax		**1,193**	863	899
Taxation	5	**(268)**	(164)	(99)
Profit for the period		**925**	699	800
Profit attributable to ordinary shareholders		**677**	574	551
Profit attributable to other equity holders[1]		**197**	91	196
Profit attributable to equity holders		**874**	665	747
Profit attributable to non-controlling interests		**51**	34	53
Profit for the period		**925**	699	800
Basic earnings per share	6	**1.0p**	0.8p	0.8p
Diluted earnings per share	6	**1.0p**	0.8p	0.8p

1 The profit after tax attributable to other equity holders of £197 million (half-year to 30 June 2014: £91 million; half-year to 31 December 2014: £196 million) is offset in reserves by a tax credit attributable to ordinary shareholders of £40 million (half-year to 30 June 2014: £20 million; half-year to 31 December 2014: £42 million).

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Profit for the period	**925**	699	800
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements (note 11):			
Remeasurements before taxation	**(302)**	(599)	1,273
Taxation	**60**	120	(255)
	(242)	(479)	1,018
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value	**(16)**	557	133
Income statement transfers in respect of disposals	**(49)**	(85)	(46)
Income statement transfers in respect of impairment	**–**	2	–
Taxation	**(2)**	(51)	38
	(67)	423	125
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value	**(404)**	1,008	2,888
Net income statement transfers	**(481)**	(572)	(581)
Taxation	**175**	(86)	(463)
	(710)	350	1,844
Currency translation differences (tax: nil)	**27**	(1)	(2)
Other comprehensive income for the period, net of tax	**(992)**	293	2,985
Total comprehensive income for the period	**(67)**	992	3,785
Total comprehensive income attributable to ordinary shareholders	**(315)**	867	3,536
Total comprehensive income attributable to other equity holders	**197**	91	196
Total comprehensive income attributable to equity holders	**(118)**	958	3,732
Total comprehensive income attributable to non-controlling interests	**51**	34	53
Total comprehensive income for the period	**(67)**	992	3,785

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

CONSOLIDATED BALANCE SHEET

Assets	Note	**At 30 June 2015 £ million**	At 31 Dec 2014 £ million
Cash and balances at central banks		**67,687**	50,492
Items in course of collection from banks		**1,159**	1,173
Trading and other financial assets at fair value through profit or loss	7	**147,849**	151,931
Derivative financial instruments	8	**27,980**	36,128
Loans and receivables:			
Loans and advances to banks		**23,548**	26,155
Loans and advances to customers	9	**452,427**	482,704
Debt securities		**1,569**	1,213
		477,544	510,072
Available-for-sale financial assets		**32,173**	56,493
Held-to-maturity investments		**19,960**	–
Investment properties		**4,702**	4,492
Goodwill		**2,016**	2,016
Value of in-force business		**4,863**	4,864
Other intangible assets		**1,942**	2,070
Tangible fixed assets		**8,154**	8,052
Current tax recoverable		**195**	127
Deferred tax assets		**4,039**	4,145
Retirement benefit assets	11	**908**	1,147
Other assets		**21,661**	21,694
Total assets		**822,832**	854,896

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

CONSOLIDATED BALANCE SHEET (continued)

Equity and liabilities	Note	**At 30 June 2015 £ million**	At 31 Dec 2014 £ million
Liabilities			
Deposits from banks		**16,966**	10,887
Customer deposits		**416,595**	447,067
Items in course of transmission to banks		**790**	979
Trading and other financial liabilities at fair value through profit or loss		**63,328**	62,102
Derivative financial instruments	8	**27,778**	33,187
Notes in circulation		**1,090**	1,129
Debt securities in issue	10	**77,776**	76,233
Liabilities arising from insurance contracts and participating investment contracts		**81,183**	86,918
Liabilities arising from non-participating investment contracts		**26,131**	27,248
Unallocated surplus within insurance businesses		**290**	320
Other liabilities		**35,251**	28,105
Retirement benefit obligations	11	**467**	453
Current tax liabilities		**24**	69
Deferred tax liabilities		**40**	54
Other provisions		**4,443**	4,200
Subordinated liabilities		**22,639**	26,042
Total liabilities		**774,791**	804,993
Equity			
Share capital		**7,146**	7,146
Share premium account		**17,292**	17,281
Other reserves		**12,455**	13,216
Retained profits		**5,363**	5,692
Shareholders' equity		**42,256**	43,335
Other equity instruments		**5,355**	5,355
Total equity excluding non-controlling interests		**47,611**	48,690
Non-controlling interests		**430**	1,213
Total equity		**48,041**	49,903
Total equity and liabilities		**822,832**	854,896

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital and premium £ million	**Other reserves £ million**	**Retained profits £ million**	**Total £ million**	**Other equity instruments £ million**	**Non-controlling interests £ million**	**Total £ million**
Balance at 1 January 2015	**24,427**	**13,216**	**5,692**	**43,335**	**5,355**	**1,213**	**49,903**
Comprehensive income							
Profit for the period	**–**	**–**	**874**	**874**	**–**	**51**	**925**
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	**–**	**–**	**(242)**	**(242)**	**–**	**–**	**(242)**
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	**–**	**(67)**	**–**	**(67)**	**–**	**–**	**(67)**
Movements in cash flow hedging reserve, net of tax	**–**	**(710)**	**–**	**(710)**	**–**	**–**	**(710)**
Currency translation differences (tax: nil)	**–**	**27**	**–**	**27**	**–**	**–**	**27**
Total other comprehensive income	**–**	**(750)**	**(242)**	**(992)**	**–**	**–**	**(992)**
Total comprehensive income	**–**	**(750)**	**632**	**(118)**	**–**	**51**	**(67)**
Transactions with owners							
Dividends	**–**	**–**	**(535)**	**(535)**	**–**	**(10)**	**(545)**
Distributions on other equity instruments, net of tax	**–**	**–**	**(157)**	**(157)**	**–**	**–**	**(157)**
Redemption of preference shares	**11**	**(11)**	**–**	**–**	**–**	**–**	**–**
Movement in treasury shares	**–**	**–**	**(479)**	**(479)**	**–**	**–**	**(479)**
Value of employee services:							
Share option schemes	**–**	**–**	**60**	**60**	**–**	**–**	**60**
Other employee award schemes	**–**	**–**	**150**	**150**	**–**	**–**	**150**
Adjustment on sale of interest in TSB Banking Group plc (TSB) (note 16)	**–**	**–**	**–**	**–**	**–**	**(825)**	**(825)**
Other changes in non-controlling interests	**–**	**–**	**–**	**–**	**–**	**1**	**1**

Total transactions with owners	**11**	**(11)**	**(961)**	**(961)**	**–**	**(834)**	**(1,795)**
Balance at 30 June 2015	**24,438**	**12,455**	**5,363**	**42,256**	**5,355**	**430**	**48,041**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders						
	Share capital and premium	Other reserves	Retained profits	Total	Other equity instruments	Non-controlling interests	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Balance at 1 January 2014	24,424	10,477	4,088	38,989	–	347	39,336
Comprehensive income							
Profit for the period	–	–	665	665	–	34	699
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(479)	(479)	–	–	(479)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	423	–	423	–	–	423
Movements in cash flow hedging reserve, net of tax	–	350	–	350	–	–	350
Currency translation differences (tax: nil)	–	(1)	–	(1)	–	–	(1)
Total other comprehensive income	–	772	(479)	293	–	–	293
Total comprehensive income	–	772	186	958	–	34	992
Transactions with owners							
Dividends	–	–	–	–	–	(8)	(8)
Distributions on other equity instruments, net of tax	–	–	(71)	(71)	–	–	(71)
Issue of ordinary shares	3	–	–	3	–	–	3
Issue of Additional Tier 1 securities	–	–	(26)	(26)	5,355	–	5,329
Movement in treasury shares	–	–	(263)	(263)	–	–	(263)
Value of employee services:							
Share option schemes	–	–	21	21	–	–	21
Other employee award schemes	–	–	99	99	–	–	99
Adjustment on sale of non-controlling interest in TSB	–	–	(135)	(135)	–	565	430
Other changes in non-controlling interests	–	–	–	–	–	10	10

Total transactions with owners	3	–	(375)	(372)	5,355	567	5,550
Balance at 30 June 2014	24,427	11,249	3,899	39,575	5,355	948	45,878

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders						
	Share capital and premium	Other reserves	Retained profits	Total	Other equity instruments	Non-controlling interests	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Balance at 1 July 2014	24,427	11,249	3,899	39,575	5,355	948	45,878
Comprehensive income							
Profit for the period	–	–	747	747	–	53	800
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	1,018	1,018	–	–	1,018
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	125	–	125	–	–	125
Movements in cash flow hedging reserve, net of tax	–	1,844	–	1,844	–	–	1,844
Currency translation differences (tax: nil)	–	(2)	–	(2)	–	–	(2)
Total other comprehensive income	–	1,967	1,018	2,985	–	–	2,985
Total comprehensive income	–	1,967	1,765	3,732	–	53	3,785
Transactions with owners							
Dividends	–	–	–	–	–	(19)	(19)
Distributions on other equity instruments, net of tax	–	–	(154)	(154)	–	–	(154)
Issue of other equity instruments	–	–	5	5	–	–	5
Movement in treasury shares	–	–	(23)	(23)	–	–	(23)
Value of employee services:							
Share option schemes	–	–	102	102	–	–	102
Other employee award schemes	–	–	134	134	–	–	134
Adjustment on sale of non-controlling interest in TSB			(36)	(36)	–	240	204
Other changes in non-controlling interests	–	–	–	–	–	(9)	(9)
Total transactions with owners	–	–	28	28	–	212	240

Balance at 31 December 2014	24,427	13,216	5,692	43,335	5,355	1,213	49,903

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

CONSOLIDATED CASH FLOW STATEMENT

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Profit before tax	**1,193**	863	899
Adjustments for:			
Change in operating assets	**26,512**	1,932	(2,804)
Change in operating liabilities	**81**	3,172	8,820
Non-cash and other items	**(6,417)**	1,651	(4,147)
Tax (paid) received	**(49)**	2	(35)
Net cash provided by operating activities	**21,320**	7,620	2,733
Cash flows from investing activities			
Purchase of financial assets	**(12,358)**	(7,363)	(4,170)
Proceeds from sale and maturity of financial assets	**14,838**	1,685	2,983
Purchase of fixed assets	**(1,564)**	(1,651)	(1,791)
Proceeds from sale of fixed assets	**526**	725	1,318
Acquisition of businesses, net of cash acquired	**–**	(1)	–
Disposal of businesses, net of cash disposed	**(4,282)**	536	7
Net cash used in investing activities	**(2,840)**	(6,069)	(1,653)
Cash flows from financing activities			
Dividends paid to ordinary shareholders	**(535)**	–	–
Distributions on other equity instruments	**(197)**	(91)	(196)
Dividends paid to non-controlling interests	**(10)**	(8)	(19)
Interest paid on subordinated liabilities	**(1,250)**	(1,416)	(789)
Proceeds from issue of subordinated liabilities	**–**	–	629
Proceeds from issue of ordinary shares	**–**	3	–
Repayment of subordinated liabilities	**(2,068)**	(1,240)	(1,783)
Changes in non-controlling interests	**1**	440	195
Net cash used in financing activities	**(4,059)**	(2,312)	(1,963)
Effects of exchange rate changes on cash and cash equivalents	**(2)**	4	(10)
Change in cash and cash equivalents	**14,419**	(757)	(893)
Cash and cash equivalents at beginning of period	**65,147**	66,797	66,040
Cash and cash equivalents at end of period	**79,566**	66,040	65,147

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

1. Accounting policies, presentation and estimates

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

The British Bankers' Association's Code for Financial Reporting Disclosure (the Disclosure Code) sets out disclosure principles together with supporting guidance in respect of the financial statements of UK banks. The Group has adopted the Disclosure Code and these condensed consolidated half-year financial statements have been prepared in compliance with the Disclosure Code's principles. Terminology used in these condensed consolidated half-year financial statements is consistent with that used in the Group's 2014 Annual Report and Accounts where a glossary of terms can be found.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position and have had regard to the factors set out in Principal risks and uncertainties: Funding and liquidity on page 23.

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

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

Future accounting developments

Details of those IFRS pronouncements which will be relevant to the Group but which will not be effective at 31 December 2015 and which have not been applied in preparing these financial statements are set out in note 19.

Critical accounting estimates and judgements

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

2. Segmental analysis

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

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

Following the announcement of the sale of TSB to Banco Sabadell, the Group no longer considers TSB to be a separate financial reporting segment and as a consequence its results are included in Other. The Group's activities are organised into four financial reporting segments: Retail; Commercial Banking; Consumer Finance and Insurance. There has been no change to the descriptions of these segments as provided in note 4 to the Group's financial statements for the year ended 31 December 2014.

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

Half-year to 30 June 2015	**Net interest income**	**Other income, net of insurance claims**	**Total income, net of insurance claims**	**Profit (loss) before tax**	**External revenue**	**Inter-segment revenue**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Underlying basis						
Retail	**3,743**	**559**	**4,302**	**1,839**	**4,629**	**(327)**
Commercial Banking	**1,234**	**1,023**	**2,257**	**1,193**	**1,842**	**415**
Consumer Finance	**658**	**677**	**1,335**	**539**	**1,462**	**(127)**
Insurance	**(73)**	**1,025**	**952**	**584**	**1,241**	**(289)**
Other	**345**	**–**	**345**	**228**	**17**	**328**
Group	**5,907**	**3,284**	**9,191**	**4,383**	**9,191**	**–**
Reconciling items:						
Insurance grossing adjustment	**(241)**	**287**	**46**	**–**		
Asset sales, volatile items and liability management[1]	**26**	**(384)**	**(358)**	**(355)**		
Volatility relating to the insurance business	**–**	**18**	**18**	**18**		

Simplification costs	**–**	**–**	**–**	**(32)**
TSB build and dual-running costs	**–**	**–**	**–**	**(85)**
Charge relating to the TSB disposal	**–**	**5**	**5**	**(660)**
Payment protection insurance provision	**–**	**–**	**–**	**(1,400)**
Other conduct provisions	**–**	**–**	**–**	**(435)**
Amortisation of purchased intangibles	**–**	**–**	**–**	**(164)**
Fair value unwind	**(200)**	**105**	**(95)**	**(77)**
Group – statutory	**5,492**	**3,315**	**8,807**	**1,193**

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

2. Segmental analysis (continued)

Half-year to 30 June 2014	Net interest income	Other income, net of insurance claims	Total income, net of insurance claims	Profit (loss) before tax	External revenue	Inter-segment revenue
	£m	£m	£m	£m	£m	£m
Underlying basis						
Retail	3,493	700	4,193	1,710	4,497	(304)
Commercial Banking	1,234	984	2,218	1,156	1,785	433
Consumer Finance	645	675	1,320	534	1,377	(57)
Insurance	(64)	854	790	461	859	(69)
Other	496	235	731	(42)	734	(3)
Group	5,804	3,448	9,252	3,819	9,252	–
Reconciling items:						
Insurance grossing adjustment	(239)	314	75	–		
Asset sales, volatile items and liability management[1]	10	(1,135)	(1,125)	(1,130)		
Volatility relating to the insurance business	–	(122)	(122)	(122)		
Simplification costs	–	–	–	(519)		
TSB build and dual-running costs	–	–	–	(309)		
Payment protection insurance provision	–	–	–	(600)		
Other conduct provisions	–	–	–	(500)		
Past service credit[2]	–	–	–	710		
Amortisation of purchased intangibles	–	–	–	(171)		
Fair value unwind	(313)	(71)	(384)	(315)		
Group – statutory	5,262	2,434	7,696	863		

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

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

2. Segmental analysis (continued)

Half-year to 31 December 2014	Net interest income	Other income, net of insurance claims	Total income, net of insurance claims	Profit (loss) before tax	External revenue	Inter-segment revenue
	£m	£m	£m	£m	£m	£m
Underlying basis						
Retail	3,586	512	4,098	1,518	4,537	(439)
Commercial Banking	1,246	972	2,218	1,050	2,015	203
Consumer Finance	645	689	1,334	476	1,426	(92)
Insurance	(67)	871	804	461	347	457
Other	547	115	662	432	791	(129)
Group	5,957	3,159	9,116	3,937	9,116	–
Reconciling items:						
Insurance grossing adjustment	(243)	300	57	–		
Asset sales, volatile items and liability management[1]	(3)	16	13	168		
Volatility relating to the insurance business	–	(106)	(106)	(106)		
Simplification costs	–	(22)	(22)	(447)		
TSB build and dual-running costs	–	–	–	(249)		
Payment protection insurance provision	–	–	–	(1,600)		
Other conduct provisions	–	–	–	(425)		
Amortisation of purchased intangibles	–	–	–	(165)		
Fair value unwind	(313)	(42)	(355)	(214)		
Group – statutory	5,398	3,305	8,703	899		

[1] Comprises (i) gains on disposals of assets which are not part of normal business operations (£44 million); (ii) the net effect of banking volatility, changes in the fair value of the equity conversion feature of the Group's Enhanced Capital Notes and net derivative valuation adjustments (gains of £134 million); and (iii) the results of liability management exercises (losses of £10 million).

	Segment external assets		**Segment customer deposits**		**Segment external liabilities**	
	At 30 June 2015	At 31 Dec 2014	**At 30 June 2015**	At 31 Dec 2014	**At 30 June 2015**	At 31 Dec 2014
	£m	£m	**£m**	£m	**£m**	£m
Retail	**315,088**	317,246	**278,231**	285,539	**286,376**	295,880
Commercial Banking	**179,530**	241,754	**125,407**	119,882	**232,024**	231,400
Consumer Finance	**26,514**	25,646	**11,423**	14,955	**16,502**	18,581

Insurance	**150,899**	150,615	**–**	–	**144,915**	144,921
Other	**150,801**	119,635	**1,534**	26,691	**94,974**	114,211
Total Group	**822,832**	854,896	**416,595**	447,067	**774,791**	804,993

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3. Operating expenses

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Administrative expenses			
Staff costs:			
Salaries and social security costs	**1,859**	2,074	1,892
Pensions and other post-retirement benefit schemes[1]	**278**	(530)	304
Restructuring and other staff costs	**273**	513	492
	2,410	2,057	2,688
Premises and equipment	**360**	444	447
Other expenses:			
Communications and data processing	**436**	595	523
UK bank levy	**–**	–	237
TSB disposal (note 16)	**665**	–	–
Other	**740**	1,046	788
	1,841	1,641	1,548
	4,611	4,142	4,683
Depreciation and amortisation	**1,007**	950	985
Total operating expenses, excluding regulatory provisions	**5,618**	5,092	5,668
Regulatory provisions:			
Payment protection insurance provision (note 12)	**1,400**	600	1,600
Other regulatory provisions (note 12)	**435**	500	425
	1,835	1,100	2,025
Total operating expenses	**7,453**	6,192	7,693

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

4. Impairment

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Impairment losses on loans and receivables:			
Loans and advances to customers	**181**	639	96

Debt securities classified as loans and receivables	**(2)**	–	2
Impairment losses on loans and receivables	**179**	639	98
Impairment of available-for-sale financial assets	**–**	2	3
Other credit risk provisions	**(18)**	–	10
Total impairment charged to the income statement	**161**	641	111

5. Taxation

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

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Profit before tax	**1,193**	863	899
Tax charge thereon at UK corporation tax rate of 20.25 per cent (2014: 21.5 per cent)	**(242)**	(186)	(193)
Factors affecting tax charge:			
UK corporation tax rate change and related impacts	**7**	–	(24)
Disallowed items	**(99)**	(113)	(82)
Non-taxable items	**46**	58	95
Overseas tax rate differences	**(8)**	(17)	(7)
Gains exempted or covered by capital losses	**47**	147	34
Policyholder tax	**(39)**	(23)	9
Adjustments in respect of previous years	**21**	(19)	53
Effect of results of joint ventures and associates	**–**	(3)	10
Other items	**(1)**	(8)	6
Tax charge	**(268)**	(164)	(99)

In accordance with IAS 34, the Group’s income tax expense for the half-year to 30 June 2015 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

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

6. Earnings per share

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Basic			
Profit attributable to ordinary shareholders	**677**	574	551
Tax credit on distributions to other equity holders	**40**	20	42
	717	594	593
Weighted average number of ordinary shares in issue	**71,349m**	71,350m	71,350m
Earnings per share	**1.0p**	0.8p	0.8p
Fully diluted			
Profit attributable to ordinary shareholders	**677**	574	551
Tax credit on distributions to other equity holders	**40**	20	42
	717	594	593
Weighted average number of ordinary shares in issue	**72,463m**	72,399m	72,494m
Earnings per share	**1.0p**	0.8p	0.8p

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

	At 30 June 2015 £m	At 31 Dec 2014 £m
Trading assets	**43,419**	48,494
Other financial assets at fair value through profit or loss:		
Treasury and other bills	**22**	22
Debt securities	**40,520**	41,839
Equity shares	**63,888**	61,576
	104,430	103,437
Total trading and other financial assets at fair value through profit or loss	**147,849**	151,931

Included in the above is £95,201 million (31 December 2014: £94,314 million) of assets relating to the insurance businesses.

8. Derivative financial instruments

	30 June 2015		31 December 2014	
	Fair value of assets £m	**Fair value of liabilities £m**	Fair value of assets £m	Fair value of liabilities £m
Hedging				
Derivatives designated as fair value hedges	**1,662**	**763**	2,472	962
Derivatives designated as cash flow hedges	**1,070**	**1,814**	1,761	2,654
	2,732	**2,577**	4,233	3,616
Trading and other				
Exchange rate contracts	**6,586**	**8,020**	7,034	6,950
Interest rate contracts	**16,784**	**15,527**	22,506	20,374
Credit derivatives	**254**	**468**	279	1,066
Embedded equity conversion feature	**256**	**–**	646	–
Equity and other contracts	**1,368**	**1,186**	1,430	1,181
	25,248	**25,201**	31,895	29,571
Total recognised derivative assets/liabilities	**27,980**	**27,778**	36,128	33,187

The embedded equity conversion feature of £256 million (31 December 2014: £646 million) reflects the value of the equity conversion feature contained in the Enhanced Capital Notes issued by the Group in 2009; a loss of £390 million arose from the change in fair value in the half-year to 30 June 2015 (half-year to 30 June 2014: gain of £226 million; half-year to 31 December 2014: gain of £175 million) and is included within net trading income. In addition, £967 million of the embedded derivative, being that portion of the embedded equity conversion feature related to ECNs derecognised pursuant to the Group’s exchange and retail tender transactions completed in April 2014, was derecognised on completion of those transactions in the half-year to 30 June 2014.

9. Loans and advances to customers

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

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

10. Debt securities in issue

	30 June 2015			31 December 2014		
	At fair value through profit or loss £m	**At amortised cost £m**	**Total £m**	At fair value through profit or loss £m	At amortised cost £m	Total £m
Medium-term notes issued	**7,393**	**26,262**	**33,655**	6,739	22,728	29,467
Covered bonds	**–**	**25,500**	**25,500**	–	27,191	27,191

Certificates of deposit	**–**	**9,313**	**9,313**	–	7,033	7,033
Securitisation notes	**–**	**10,842**	**10,842**	–	11,908	11,908
Commercial paper	**–**	**5,859**	**5,859**	–	7,373	7,373
	7,393	**77,776**	**85,169**	6,739	76,233	82,972

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

Securitisation programmes

At 30 June 2015, external parties held £10,842 million (31 December 2014: £11,908 million) and the Group’s subsidiaries held £27,707 million (31 December 2014: £38,149 million) of total securitisation notes in issue of £38,549 million (31 December 2014: £50,057 million). The notes are secured on loans and advances to customers and debt securities classified as loans and receivables amounting to £62,853 million (31 December 2014: £75,970 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. The structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet.

10. **Debt securities in issue** (continued)

Covered bond programmes

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

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

11. Post-retirement defined benefit schemes

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

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

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

	£m
At 1 January 2015	**694**
Income statement charge	**(154)**
Employer contributions	**203**
Remeasurement	**(302)**
At 30 June 2015	**441**

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

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

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11. Post-retirement defined benefit schemes (continued)

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

12. Provisions for liabilities and charges

Payment protection insurance

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

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

The main drivers of the provision are as follows:

Proactive mailing resulting from Past Business Reviews (PBR)

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

Remediation

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

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

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

12. Provisions for liabilities and charges (continued)

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

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

Average redress

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

Expenses

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

Sensitivities

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

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

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

12. Provisions for liabilities and charges (continued)

Key metrics and sensitivities are highlighted in the table below:

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

1 All sensitivities exclude claims where no PPI policy was held.

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

3 To date volume includes customer initiated complaints.

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

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

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

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

Other regulatory provisions

Litigation in relation to insurance branch business in Germany

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

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

Interest rate hedging products

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

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

12. Provisions for liabilities and charges (continued)

FCA review of complaint handling

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

Other legal actions and regulatory matters

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

13. Contingent liabilities and commitments

Interchange fees

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

- A new European Regulation to regulate cross-border and domestic fallback multilateral interchange fees (MIFs) in the EU. This regulation came into force on 8 June 2015 and it will introduce interchange fee caps for credit card MIFs (to 30 bps) and debit card MIFs (to 20bps). The interchange fee caps come in to force on 9 December 2015;

- The European Commission also continues to pursue other competition investigations into MasterCard and Visa probing, amongst other things, interchange paid in respect of cards issued outside the EEA;

- Litigation continues in the English High Court against both Visa and MasterCard. This litigation has been brought by several retailers who are seeking damages for allegedly 'overpaid' MIFs;

- The new UK payments regulator may exercise its powers to regulate domestic interchange fees. In addition, the FCA has undertaken a market study in relation to the UK credit cards market.

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

LIBOR and other trading rates

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

13. Contingent liabilities and commitments (continued)

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

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

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

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

UK shareholder litigation

In August 2014, the Group and a number of former directors were named as defendants in a claim filed in the English High Court by a number of claimants who held shares in Lloyds TSB Group plc (LTSB) prior to the acquisition of HBOS plc, alleging breaches of fiduciary and tortious duties in relation to information provided to shareholders in connection with the acquisition and the recapitalisation of LTSB. The claim is at an early stage and so it is currently not possible to determine the ultimate impact on the Group (if any), but it intends to defend the claim vigorously.

Financial Services Compensation Scheme

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

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

PRA/FCA report on HBOS

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

13. Contingent liabilities and commitments (continued)

Tax authorities

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

Residential mortgage repossessions

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

Plevin v Paragon Personal Finance Limited

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

Other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of employees, customers, investors or other third parties, as well as regulatory reviews, challenges, investigations and enforcement actions, both in the

UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

13. **Contingent liabilities and commitments** (continued)

Contingent liabilities and commitments arising from the banking business

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

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

14. Fair values of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine those fair values. Note 51 to the Group's 2014 financial statements describes the definitions of the three levels in the fair value hierarchy.

Valuation control framework

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

Transfers into and out of level 3 portfolios

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

Valuation methodology

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

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

	30 June 2015		31 December 2014	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m

Financial assets				
Trading and other financial assets at fair value through profit or loss	**147,849**	**147,849**	151,931	151,931
Derivative financial instruments	**27,980**	**27,980**	36,128	36,128
Loans and receivables:				
Loans and advances to banks	**23,548**	**23,892**	26,155	26,031
Loans and advances to customers	**452,427**	**450,322**	482,704	480,631
Debt securities	**1,569**	**1,491**	1,213	1,100
Available-for-sale financial instruments	**32,173**	**32,173**	56,493	56,493
Held-to-maturity investments	**19,960**	**19,785**	–	–
Financial liabilities				
Deposits from banks	**16,966**	**16,978**	10,887	10,902
Customer deposits	**416,595**	**416,933**	447,067	450,038
Trading and other financial liabilities at fair value through profit or loss	**63,328**	**63,328**	62,102	62,102
Derivative financial instruments	**27,778**	**27,778**	33,187	33,187
Debt securities in issue	**77,776**	**80,400**	76,233	80,244
Liabilities arising from non-participating investment contracts	**26,131**	**26,131**	27,248	27,248
Financial guarantees	**44**	**44**	51	51
Subordinated liabilities	**22,639**	**26,751**	26,042	30,175

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

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

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

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

Financial assets

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2015				
Trading and other financial assets at fair value through profit or loss:				
Loans and advances to customers	**–**	**26,601**	**–**	**26,601**
Loans and advances to banks	**–**	**6,564**	**–**	**6,564**
Debt securities	**24,155**	**22,949**	**3,670**	**50,774**
Equity shares	**62,071**	**337**	**1,480**	**63,888**
Treasury and other bills	**22**	**–**	**–**	**22**
Total trading and other financial assets at fair value through profit or loss	**86,248**	**56,451**	**5,150**	**147,849**
Available-for-sale financial assets:				
Debt securities	**24,896**	**5,366**	**–**	**30,262**
Equity shares	**47**	**709**	**303**	**1,059**
Treasury and other bills	**852**	**–**	**–**	**852**
Total available-for-sale financial assets	**25,795**	**6,075**	**303**	**32,173**
Derivative financial instruments	**51**	**25,696**	**2,233**	**27,980**
Total financial assets carried at fair value	**112,094**	**88,222**	**7,686**	**208,002**
At 31 December 2014				
Trading and other financial assets at fair value through profit or loss:				
Loans and advances to customers	–	28,513	–	28,513
Loans and advances to banks	–	8,212	–	8,212
Debt securities	24,230	24,484	3,457	52,171
Equity shares	59,607	322	1,647	61,576
Treasury and other bills	1,459	–	–	1,459
Total trading and other financial assets at fair value through profit or loss	85,296	61,531	5,104	151,931
Available-for-sale financial assets:				
Debt securities	47,437	7,151	–	54,588
Equity shares	45	727	270	1,042
Treasury and other bills	852	11	–	863

Total available-for-sale financial assets	48,334	7,889	270	56,493
Derivative financial instruments	94	33,263	2,771	36,128
Total financial assets carried at fair value	133,724	102,683	8,145	244,552

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

Financial liabilities

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2015				
Trading and other financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	**–**	**7,393**	**1**	**7,394**
Trading liabilities	**3,592**	**52,342**	**–**	**55,934**
Total trading and other financial liabilities at fair value through profit or loss	**3,592**	**59,735**	**1**	**63,328**
Derivative financial instruments	**108**	**26,337**	**1,333**	**27,778**
Financial guarantees	**–**	**–**	**44**	**44**
Total financial liabilities carried at fair value	**3,700**	**86,072**	**1,378**	**91,150**
At 31 December 2014				
Trading and other financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	–	6,739	5	6,744
Trading liabilities	2,700	52,658	–	55,358
Total trading and other financial liabilities at fair value through profit or loss	2,700	59,397	5	62,102
Derivative financial instruments	68	31,663	1,456	33,187
Financial guarantees	–	–	51	51
Total financial liabilities carried at fair value	2,768	91,060	1,512	95,340

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

Movements in level 3 portfolio

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

	Trading and other financial assets at fair value through profit or loss	**Available-for-sale financial assets**	**Derivative assets**	**Total financial assets carried at fair value**
	£m	**£m**	**£m**	**£m**
At 1 January 2015	**5,104**	**270**	**2,771**	**8,145**
Exchange and other adjustments	**(1)**	**–**	**(44)**	**(45)**
Losses recognised in the income statement within other income	**(61)**	**–**	**(534)**	**(595)**
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	**–**	**1**	**–**	**1**
Purchases	**785**	**38**	**182**	**1,005**
Sales	**(649)**	**(6)**	**(105)**	**(760)**
Transfers into the level 3 portfolio	**20**	**–**	**–**	**20**
Transfers out of the level 3 portfolio	**(48)**	**–**	**(37)**	**(85)**
At 30 June 2015	**5,150**	**303**	**2,233**	**7,686**
Losses recognised in the income statement within other income relating to those assets held at 30 June 2015	**(39)**	**–**	**(533)**	**(572)**

	Trading and other financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivative assets	Total financial assets carried at fair value

	£m	£m	£m	£m
At 1 January 2014	4,232	449	3,019	7,700
Exchange and other adjustments	–	(9)	(10)	(19)
Gains recognised in the income statement within other income	167	(78)	277	366
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	15	–	15
Purchases	432	199	10	641
Sales	(367)	(173)	(1,072)	(1,612)
Transfers into the level 3 portfolio	441	–	22	463
Transfers out of the level 3 portfolio	–	(74)	(53)	(127)
At 30 June 2014	4,905	329	2,193	7,427
Gains recognised in the income statement within other income relating to those assets held at 30 June 2014	140	–	50	190

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

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

	Trading and other financial liabilities at fair value through profit or loss	**Derivative liabilities**	**Financial guarantees**	**Total financial liabilities carried at fair value**
	£m	**£m**	**£m**	**£m**
At 1 January 2015	**5**	**1,456**	**51**	**1,512**
Exchange and other adjustments	**–**	**(33)**	**–**	**(33)**
(Gains) losses recognised in the income statement within other income	**–**	**(100)**	**(7)**	**(107)**
Additions	**–**	**124**	**–**	**124**
Redemptions	**(4)**	**(102)**	**–**	**(106)**
Transfers into the level 3 portfolio	**–**		**–**	**–**
Transfers out of the level 3 portfolio	**–**	**(12)**	**–**	**(12)**
At 30 June 2015	**1**	**1,333**	**44**	**1,378**
Gains recognised in the income statement within other income relating to those liabilities held at 30 June 2015	**–**	**(100)**	**(7)**	**(107)**

Trading and other financial liabilities at fair value through profit	Derivative liabilities	Financial guarantees	Total financial liabilities carried at fair value

	or loss £m	£m	£m	£m
At 1 January 2014	39	986	50	1,075
Exchange and other adjustments	–	(5)	–	(5)
(Gains) losses recognised in the income statement within other income	(2)	78	(2)	74
Additions	–	5	–	5
Redemptions	(25)	(53)	–	(78)
Transfers into the level 3 portfolio	–	5	–	5
At 30 June 2014	12	1,016	48	1,076
Gains (losses) recognised in the income statement within other income relating to those liabilities held at 30 June 2014	–	(78)	–	(78)

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

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

				At 30 June 2015		
					Effect of reasonably possible alternative assumptions[1]	
	Valuation technique(s)	Significant unobservable inputs	Range[2]	Carrying value	Favourable changes	Unfavourable changes
				£m	£m	£m
Trading and other financial assets at fair value through profit or loss:						
Equity and venture capital investments	Market approach	Earnings multiple	**4/16**	**2,179**	**75**	**(75)**
Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/net asset value (incl. property prices)[3]	n/a		**2,615**	**–**	**(6)**
Other				**356**		
				5,150		
Available for sale financial assets				**303**		
Derivative financial assets:						
Embedded equity conversion feature	Lead manager or broker quote	Equity conversion feature spread	**183/406**	**256**	**15**	**(15)**
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	**6/177**	**1,409**	**12**	**(13)**
	Option pricing model	Interest rate volatility	**0%/76%**	**568**	**4**	**(4)**
				2,233		
Financial assets carried at fair value				**7,686**		
Trading and other financial liabilities at fair value through profit or loss				**1**		
Derivative financial liabilities:						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	**6/177**	**846**		
	Option pricing model	Interest rate volatility	**0%/76%**	**487**		
				1,333		
Financial guarantees				**44**		
Financial liabilities carried at fair value				**1,378**		

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

[2] The range represents the highest and lowest inputs used in the level 3 valuations.
[3] Underlying asset/net asset values represent fair value.

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

	Valuation technique(s)	Significant unobservable inputs	Range[2]	At 31 December 2014 Carrying value £m	Effect of reasonably possible alternative assumptions[1] Favourable changes £m	Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss:						
Equity and venture capital investments	Market approach	Earnings multiple	4/14	2,214	75	(75)
Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/net asset value (incl. property prices)[3]	n/a	n/a	2,617	4	(2)
Other				273		
				5,104		
Available for sale financial assets				270		
Derivative financial assets:						
Embedded equity conversion feature	Lead manager or broker quote	Equity conversion feature spread	175/432	646	21	(21)
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	3/167	1,382	17	(16)
	Option pricing model	Interest rate volatility	4%/120%	743	6	(6)
				2,771		
Financial assets carried at fair value				8,145		
Trading and other financial liabilities at fair value through profit or loss				5		
Derivative financial liabilities:						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	3/167	807		
	Option pricing model	Interest rate volatility	4%/120%	649		
				1,456		
Financial guarantees				51		
Financial liabilities carried at fair value				1,512		

1 Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.
2 The range represents the highest and lowest inputs used in the level 3 valuations.
3 Underlying asset/net asset values represent fair value.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are unchanged from those described in the Group's 2014 financial statements.

Reasonably possible alternative assumptions

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

15. Related party transactions

UK government

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

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

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

National Loan Guarantee Scheme

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

Funding for Lending

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

Enterprise Finance Guarantee

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

15. Related party transactions (continued)

Help to Buy

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

Business Growth Fund

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

Big Society Capital

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

Housing Growth Partnership

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

Central bank facilities

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

Other government-related entities

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

Other related party transactions

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

16. Disposal of interest in TSB Banking Group plc

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

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

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

17. Ordinary dividends

An interim dividend for 2015 of 0.75 pence per ordinary share (half-year to 30 June 2014: nil) will be paid on 28 September 2015. The total amount of this dividend is £535 million.

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

Shares quoted ex-dividend	**13 August 2015**
Record date	**14 August 2015**
Final date for joining or leaving the dividend reinvestment plan	**28 August 2015**
Interim dividend paid	**28 September 2015**

On 19 May 2015, a dividend in respect of 2014 of 0.75 pence per ordinary share was paid to shareholders. This dividend totalled £535 million.

18. Events since the balance sheet date

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

19. Future accounting developments

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

IFRS 9 *Financial Instruments*

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

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

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers*

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

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

20. Condensed consolidating financial information

Lloyds Bank plc (Lloyds Bank) is a wholly owned subsidiary of the Company and intends to offer and sell certain securities in the US from time to time utilising a registration statement on Form F-3 filed with the SEC by the Company. This will be accompanied by a full and unconditional guarantee by the Company.

Lloyds Bank intends to utilise an exception provided in Rule 3-10 of Regulation S-X which allows it to not file its financial statements with the SEC. In accordance with the requirements to qualify for the exception, presented below is condensed consolidating financial information for:

- The Company on a stand-alone basis as guarantor;
- Lloyds Bank on a stand-alone basis as issuer;
- Non-guarantor subsidiaries of the Company and non-guarantor subsidiaries of Lloyds Bank on a combined basis (Subsidiaries);
- Consolidation adjustments; and
- Lloyds Banking Group's consolidated amounts (the Group).

Under IAS 27, the Company and Lloyds Bank account for investments in their subsidiary undertakings at cost less impairment. Rule 3-10 of Regulation S-X requires a company to account for its investments in subsidiary undertakings using the equity method, which would increase/(decrease) the result for the period of the Company and Lloyds Bank in the information below by £444 million and £344 million, respectively, for the half-year to 30 June 2015; £516 million and £413 million for the half-year to 30 June 2014; and £517 million and £(1,134) million for the half-year to 31 December 2014. The net assets of the Company and Lloyds Bank in the information below would also be increased by £4,891 million and £2,855 million, respectively, at 30 June 2015; and £5,309 million and £2,957 million at 31 December 2014.

20. Condensed consolidating financial information (continued)

Income statements

For the half-year ended 30 June 2015	**Company**	**Lloyds Bank**	**Subsidiaries**	**Consolidation adjustments**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Net interest (expense) income	**142**	**2,148**	**3,374**	**(172)**	**5,492**
Other income	**63**	**2,460**	**5,602**	**(1,812)**	**6,313**
Total income	**205**	**4,608**	**8,976**	**(1,984)**	**11,805**
Insurance claims	**-**	**-**	**(2,998)**	**-**	**(2,998)**
Total income, net of insurance claims	**205**	**4,608**	**5,978**	**(1,984)**	**8,807**
Operating expenses	**(12)**	**(3,897)**	**(3,438)**	**(106)**	**(7,453)**
Trading surplus	**193**	**711**	**2,540**	**(2,090)**	**1,354**
Impairment	**-**	**(65)**	**(133)**	**37**	**(161)**
Profit (loss) before tax	**193**	**646**	**2,407**	**(2,053)**	**1,193**
Taxation	**40**	**45**	**(495)**	**142**	**(268)**
Profit (loss) for the period	**233**	**691**	**1,912**	**(1,911)**	**925**

Income statements (continued)

For the half-year ended 30 June 2014	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Net interest (expense) income	146	1,942	3,515	(341)	5,262
Other income	(135)	3,293	10,436	(4,822)	8,772
Total income	11	5,235	13,951	(5,163)	14,034
Insurance claims	–	–	(6,338)	–	(6,338)
Total income, net of insurance claims	11	5,235	7,613	(5,163)	7,696
Operating expenses	5	(3,834)	(2,959)	596	(6,192)
Trading surplus	16	1,401	4,654	(4,567)	1,504
Impairment	–	(263)	(619)	241	(641)
(Loss) profit before tax	16	1,138	4,035	(4,326)	863
Taxation	133	(151)	(385)	239	(164)
(Loss) profit for the period	149	987	3,650	(4,087)	699

For the half-year ended 31 December 2014	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m

Net interest (expense) income	109	2,078	3,423	(212)	5,398
Other income	418	3,887	9,603	(3,448)	10,460
Total income	527	5,965	13,026	(3,660)	15,858
Insurance claims	–	–	(7,155)	–	(7,155)
Total income, net of insurance claims	527	5,965	5,871	(3,660)	8,703
Operating expenses	(270)	(4,093)	(3,643)	313	(7,693)
Trading surplus	257	1,872	2,228	(3,347)	1,010
Impairment	–	(322)	(158)	369	(111)
Profit (loss) before tax	257	1,550	2,070	(2,978)	899
Taxation	(27)	(36)	(287)	251	(99)
Profit (loss) for the period	230	1,514	1,783	(2,727)	800

20. Condensed consolidating financial information (continued)

Consolidated statement of comprehensive income

Half-year ended 30 June 2015	**Company**	**Lloyds Bank**	**Subsidiaries**	**Consolidation adjustments**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Profit (loss) for the period	**233**	**691**	**1,912**	**(1,911)**	**925**
Other comprehensive income					
Items that will not subsequently be reclassified to profit or loss:					
Post-retirement defined benefit scheme remeasurements (note 11):					
Remeasurements before taxation	**–**	**(111)**	**(191)**	**–**	**(302)**
Taxation	**–**	**22**	**38**	**–**	**60**
	–	**(89)**	**(153)**	**–**	**(242)**
Items that may subsequently be reclassified to profit or loss:					
Movements in revaluation reserve in respect of available-for-sale financial assets:					
Change in fair value	**–**	**(7)**	**(21)**	**12**	**(16)**
Income statement transfers in respect of disposals	**–**	**(15)**	**(34)**	**–**	**(49)**
Income statement transfers in respect of impairment	**–**	**–**	**9**	**(9)**	**–**
Taxation	**–**	**(2)**	**2**	**(2)**	**(2)**
	–	**(24)**	**(44)**	**1**	**(67)**
Movements in cash flow hedging reserve:					
Effective portion of changes in fair value	**–**	**(308)**	**156**	**(252)**	**(404)**
Net income statement transfers	**–**	**(239)**	**(322)**	**80**	**(481)**
Taxation	**–**	**109**	**33**	**33**	**175**
	–	**(438)**	**(133)**	**(139)**	**(710)**
Currency translation differences (tax: nil)	**–**	**(12)**	**44**	**(5)**	**27**
Other comprehensive income for the period, net of tax	**–**	**(563)**	**(286)**	**(143)**	**(992)**
Total comprehensive income for the period	**233**	**128**	**1,626**	**(2,054)**	**(67)**
Total comprehensive income attributable to ordinary shareholders	**36**	**128**	**1,575**	**(2,054)**	**(315)**
Total comprehensive income attributable to other equity holders	**197**	**–**	**–**	**–**	**197**
Total comprehensive income attributable to equity holders	**233**	**128**	**1,575**	**(2,054)**	**(118)**
Total comprehensive income attributable to non-controlling interests	**–**	**–**	**51**	**–**	**51**
Total comprehensive income for the period	**233**	**128**	**1,626**	**(2,054)**	**(67)**

20. Condensed consolidating financial information (continued)

Consolidated statement of comprehensive income (continued)

Half-year ended 30 June 2014	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Profit (loss) for the period	149	987	3,650	(4,087)	699
Other comprehensive income					
Items that will not subsequently be reclassified to profit or loss:					
Post-retirement defined benefit scheme remeasurements:					
Remeasurements before taxation	–	(333)	(266)	–	(599)
Taxation	–	67	53	–	120
	–	(266)	(213)	–	(479)
Items that may subsequently be reclassified to profit or loss:					
Movements in revaluation reserve in respect of available-for-sale financial assets:					
Change in fair value	–	427	123	7	557
Income statement transfers in respect of disposals	–	12	(90)	(7)	(85)
Income statement transfers in respect of impairment	–	–	3	(1)	2
Taxation	–	(55)	4	–	(51)
	–	384	40	(1)	423
Movements in cash flow hedging reserve:					
Effective portion of changes in fair value	–	–	(114)	1,122	1,008
Net income statement transfers	–	–	(218)	(354)	(572)
Taxation	–	–	66	(152)	(86)
	–	–	(266)	616	350
Currency translation differences (tax: nil)	–	1	(7)	5	(1)
Other comprehensive income for the period, net of tax	–	119	(446)	620	293
Total comprehensive income for the period	149	1,106	3,204	(3,467)	992
Total comprehensive income attributable to ordinary shareholders	58	1,106	3,170	(3,467)	867
Total comprehensive income attributable to other equity holders	91	–	–	–	91
Total comprehensive income attributable to equity holders	149	1,106	3,170	(3,467)	958
Total comprehensive income attributable to non-controlling interests	–	–	34	–	34
Total comprehensive income for the period	149	1,106	3,204	(3,467)	992

20. Condensed consolidating financial information (continued)

Consolidated statement of comprehensive income (continued)

Half-year ended 31 December 2014	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Profit (loss) for the period	230	1,514	1,783	(2,727)	800
Other comprehensive income					
Items that will not subsequently be reclassified to profit or loss:					
Post-retirement defined benefit scheme remeasurements:					
Remeasurements before taxation	–	642	631	–	1,273
Taxation	–	(129)	(126)	–	(255)
	–	513	505	–	1,018
Items that may subsequently be reclassified to profit or loss:					
Movements in revaluation reserve in respect of available-for-sale financial assets:					
Change in fair value	–	(63)	133	63	133
Income statement transfers in respect of disposals	–	(1)	(39)	(6)	(46)
Income statement transfers in respect of impairment	–	1	4	(5)	–
Taxation	–	41	(5)	2	38
	–	(22)	93	54	125
Movements in cash flow hedging reserve:					
Effective net portion of changes in fair value	–	1,799	58	1,031	2,888
Net income statement transfers	–	(227)	(256)	(98)	(581)
Taxation	–	(315)	40	(188)	(463)
	–	1,257	(158)	745	1,844
Currency translation differences (tax: nil)	–	2	(6)	2	(2)
Other comprehensive income for the period, net of tax	–	1,750	434	801	2,985
Total comprehensive income for the period	230	3,264	2,217	(1,926)	3,785
Total comprehensive income attributable to ordinary shareholders	34	3,264	2,164	(1,926)	3,536
Total comprehensive income attributable to other equity holders	196	–	–	–	196
Total comprehensive income attributable to equity holders	230	3,264	2,164	(1,926)	3,732
Total comprehensive income attributable to non-controlling interests	–	–	53	–	53
Total comprehensive income for the period	230	3,264	2,217	(1,926)	3,785

20. Condensed consolidating financial information (continued)

Balance sheets

At 30 June 2015	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Assets					
Cash and balances at central banks	–	62,495	5,192	–	67,687
Items in course of collection from banks	–	815	344	–	1,159
Trading and other financial assets at fair value through profit or loss	–	65,644	119,711	(37,506)	147,849
Derivative financial instruments	332	33,940	21,342	(27,634)	27,980
Loans and receivables:					
Loans and advances to banks	–	3,969	19,549	30	23,548
Loans and advances to customers	–	159,424	288,136	4,867	452,427
Debt securities	–	397	1,091	81	1,569
Due from fellow Lloyds Banking Group undertakings	13,960	132,327	103,565	(249,852)	–
	13,960	296,117	412,341	(244,874)	477,544
Available-for-sale financial assets	–	29,574	5,538	(2,939)	32,173
Held-to-maturity investments	–	19,960	–	–	19,960
Investment properties	–	–	4,702	–	4,702
Goodwill	–	–	2,343	(327)	2,016
Value of in-force business	–	–	4,520	343	4,863
Other intangible assets	–	675	285	982	1,942
Tangible fixed assets	–	3,262	4,825	67	8,154
Current tax recoverable	–	961	23	(789)	195
Deferred tax assets	41	3,704	1,554	(1,260)	4,039
Retirement benefit assets	–	287	667	(46)	908
Investment in subsidiary undertakings	40,892	38,253	–	(79,145)	–
Other assets	806	2,174	19,411	(730)	21,661
Total assets	56,031	557,861	602,798	(393,858)	822,832

20. Condensed consolidating financial information (continued)

Balance sheets (continued)

At 30 June 2015	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Equity and liabilities					
Liabilities					
Deposits from banks	–	15,347	1,621	(2)	16,966
Customer deposits	–	199,715	217,010	(130)	416,595
Due to fellow Lloyds Banking Group undertakings	11,065	84,929	121,812	(217,806)	–
Items in course of transmission to banks	–	420	370	–	790
Trading and other financial liabilities at fair value through profit or loss	–	78,933	16,653	(32,258)	63,328
Derivative financial instruments	–	35,816	19,596	(27,634)	27,778
Notes in circulation	–	-	1,090	–	1,090
Debt securities in issue	557	70,536	28,939	(22,256)	77,776
Liabilities arising from insurance contracts and participating investment contracts	–	–	81,209	(26)	81,183
Liabilities arising from non-participating investment contracts	–	–	26,131	–	26,131
Unallocated surplus within insurance businesses	–	–	290	–	290
Other liabilities	–	4,211	32,825	(1,785)	35,251
Retirement benefit obligations	–	205	96	166	467
Current tax liabilities	26	6	938	(946)	24
Deferred tax liabilities	–	-	40	–	40
Other provisions	–	2,651	1,720	72	4,443
Subordinated liabilities	1,663	19,894	14,483	(13,401)	22,639
Total liabilities	13,311	512,663	564,823	(316,006)	774,791
Equity					
Shareholders' equity	37,365	45,198	37,545	(77,852)	42,256
Other equity instruments	5,355	–	–	–	5,355
Total equity excluding non-controlling interests	42,720	45,198	37,545	(77,852)	47,611
Non-controlling interests	–	–	430	–	430
Total equity	42,720	45,198	37,975	(77,852)	48,041
Total equity and liabilities	56,031	557,861	602,798	(393,858)	822,832

20. Condensed consolidating financial information (continued)

Balance sheets (continued)

At 31 December 2014	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Assets					
Cash and balances at central banks	–	40,965	9,527	–	50,492
Items in course of collection from banks	–	802	371	–	1,173
Trading and other financial assets at fair value through profit or loss	–	66,321	115,737	(30,127)	151,931
Derivative financial instruments	752	40,150	26,155	(30,929)	36,128
Loans and receivables:					
Loans and advances to banks	–	4,591	21,539	25	26,155
Loans and advances to customers	–	165,967	312,697	4,040	482,704
Debt securities	–	–	1,148	65	1,213
Due from fellow Lloyds Banking Group undertakings	14,110	130,636	113,164	(257,910)	–
	14,110	301,194	448,548	(253,780)	510,072
Available-for-sale financial assets	–	51,412	7,187	(2,106)	56,493
Investment properties	–	–	4,492	–	4,492
Goodwill	–	–	2,343	(327)	2,016
Value of in-force business	–	–	4,502	362	4,864
Other intangible assets	–	647	277	1,146	2,070
Tangible fixed assets	–	3,089	4,896	67	8,052
Current tax recoverable	–	918	280	(1,071)	127
Deferred tax assets	19	3,596	3,295	(2,765)	4,145
Retirement benefit assets	–	351	827	(31)	1,147
Investment in subsidiary undertakings	41,102	38,818	–	(79,920)	–
Other assets	791	2,451	19,419	(967)	21,694
Total assets	56,774	550,714	647,856	(400,448)	854,896

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20. Condensed consolidating financial information (continued)

Balance sheets (continued)

At 31 December 2014	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Equity and liabilities					
Liabilities					
Deposits from banks	–	8,206	2,683	(2)	10,887
Customer deposits	–	194,699	252,586	(218)	447,067
Due to fellow Lloyds Banking Group undertakings	10,944	91,882	120,591	(223,417)	–
Items in course of transmission to banks	–	560	419	–	979
Trading and other financial liabilities at fair value through profit or loss	–	73,227	14,464	(25,589)	62,102
Derivative financial instruments	–	41,320	22,796	(30,929)	33,187
Notes in circulation	–	–	1,129	–	1,129
Debt securities in issue	561	66,062	32,875	(23,265)	76,233
Liabilities arising from insurance contracts and participating investment contracts	–	–	86,941	(23)	86,918
Liabilities arising from non-participating investment contracts	–	–	27,248	–	27,248
Unallocated surplus within insurance businesses	–	–	320	–	320
Other liabilities	93	4,358	24,827	(1,173)	28,105
Retirement benefit obligations	–	190	197	66	453
Current tax liabilities	107	5	1,288	(1,331)	69
Deferred tax liabilities	–	–	1,268	(1,214)	54
Other provisions	–	2,795	1,990	(585)	4,200
Subordinated liabilities	1,688	21,590	16,907	(14,143)	26,042
Total liabilities	13,393	504,894	608,529	(321,823)	804,993
Equity					
Shareholders’ equity	38,026	45,820	38,114	(78,625)	43,335
Other equity instruments	5,355	–	–	–	5,355
Total equity excluding non-controlling interests	43,381	45,820	38,114	(78,625)	48,690
Non-controlling interests	–	–	1,213	–	1,213
Total equity	43,381	45,820	39,327	(78,625)	49,903
Total equity and liabilities	56,774	550,714	647,856	(400,448)	854,896

20. Condensed consolidating financial information (continued)

Cash flow statements

For the half-year ended 30 June 2015	**Company**	**Lloyds Bank**	**Subsidiaries**	**Consolidation adjustments**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Net cash provided by (used in) operating activities	**(265)**	**21,719**	**(3,204)**	**3,070**	**21,320**
Cash flows from investing activities:					
Purchase of financial assets	**–**	**(5,159)**	**(8,046)**	**847**	**(12,358)**
Proceeds from sale and maturity of financial assets	**–**	**6,241**	**8,597**	**–**	**14,838**
Purchase of fixed assets	**–**	**(567)**	**(997)**	**–**	**(1,564)**
Proceeds from sale of fixed assets	**–**	**35**	**491**	**–**	**526**
Dividends received from subsidiaries	**540**	**659**	**–**	**(1,199)**	**–**
Additional capital injections to subsidiaries	**–**	**(64)**	**–**	**64**	**–**
Capital lending to Lloyds Bank	**(38)**	**–**	**–**	**38**	**–**
Capital repayments by Lloyds Bank	**41**	**–**	**–**	**(41)**	**–**
Return of capital contribution	**431**	**–**	**–**	**(431)**	**–**
Disposal of businesses, net of cash disposed	**–**	**170**	**11**	**(4,463)**	**(4,282)**
Net cash provided by investing activities	**974**	**1,315**	**56**	**(5,185)**	**(2,840)**
Cash flows from financing activities:					
Dividends paid to ordinary shareholders	**(535)**	**(540)**	**(659)**	**1,199**	**(535)**
Distributions on other equity instruments	**(197)**	**–**	**–**	**–**	**(197)**
Dividends paid to non-controlling interests	**–**	**–**	**(10)**	**–**	**(10)**
Interest paid on subordinated liabilities	**(64)**	**(907)**	**(912)**	**633**	**(1,250)**
Repayment of subordinated liabilities	**–**	**(1,087)**	**(981)**	**–**	**(2,068)**
Capital contribution received	**–**	**–**	**64**	**(64)**	**–**
Return of capital contribution	**–**	**(431)**	**–**	**431**	**–**
Capital borrowing from the Company	**–**	**38**	**–**	**(38)**	**–**
Capital repayments to the Company	**–**	**(41)**	**–**	**41**	**–**
Change in non-controlling interests	**–**	**–**	**1**	**–**	**1**
Net cash (used in) provided by financing activities	**(796)**	**(2,968)**	**(2,497)**	**2,202**	**(4,059)**
Effects of exchange rate changes on cash and cash equivalents	**–**	**(1)**	**(1)**	**–**	**(2)**
Change in cash and cash equivalents	**(87)**	**20,065**	**(5,646)**	**87**	**14,419**
Cash and cash equivalents at beginning of period	**195**	**42,972**	**22,175**	**(195)**	**65,147**
Cash and cash equivalents at end of period	**108**	**63,037**	**16,529**	**(108)**	**79,566**

20. Condensed consolidating financial information (continued)

Cash flow statements (continued)

For the half-year ended 30 June 2014	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Net cash provided by (used in) operating activities	968	6,633	(4,779)	4,798	7,620
Cash flows from investing activities:					
Purchase of financial assets	–	(5,008)	(2,554)	199	(7,363)
Proceeds from sale and maturity of financial assets	–	642	5,788	(4,745)	1,685
Purchase of fixed assets	–	(624)	(1,027)	–	(1,651)
Proceeds from sale of fixed assets	–	101	624	–	725
Additional capital injections to subsidiaries	(6,543)	(390)	–	6,933	–
Capital repayments by subsidiaries	124	1,930	–	(2,054)	–
Acquisition of businesses, net of cash disposed	–	(360)	(1)	360	(1)
Disposal of businesses, net of cash disposed	–	725	898	(1,087)	536
Net cash provided by investing activities	(6,419)	(2,984)	3,728	(394)	(6,069)
Cash flows from financing activities:					
Distributions on other equity instruments	(91)	–	–	–	(91)
Dividends paid to non-controlling interests	–	–	(8)	–	(8)
Interest paid on subordinated liabilities	(47)	(885)	(1,216)	732	(1,416)
Issue of other equity instruments	5,329	–	(5,329)	–	–
Proceeds from issue of ordinary shares	3	–	–	–	3
Repayment of subordinated liabilities	–	(365)	(875)	–	(1,240)
Capital contribution received	–	–	6,933	(6,933)	–
Capital repayments to the Company	–	(124)	(1,930)	2,054	–
Sale of non-controlling interest in TSB	–	430	–	–	430
Change in non-controlling interests	–	–	10	–	10
Net cash (used in) provided by financing activities	5,194	(944)	(2,415)	(4,147)	(2,312)
Effects of exchange rate changes on cash and cash equivalents	–	6	(2)	–	4
Change in cash and cash equivalents	(257)	2,711	(3,468)	257	(757)
Cash and cash equivalents at beginning of period	511	44,491	22,306	(511)	66,797
Cash and cash equivalents at end of period	254	47,202	18,838	(254)	66,040

20. Condensed consolidating financial information (continued)

Cash flow statements (continued)

For the half-year ended 31 December 2014	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Net cash provided by (used in) operating activities	(2,960)	(1,782)	13,113	(5,638)	2,733
Cash flows from investing activities:					
Return of capital contributions	198	–	–	(198)	–
Purchase of financial assets	–	(1,044)	(3,103)	(23)	(4,170)
Proceeds from sale and maturity of financial assets	–	984	1,988	11	2,983
Purchase of fixed assets	–	(559)	(1,232)	–	(1,791)
Proceeds from sale of fixed assets	–	–	1,318	–	1,318
Additional capital lending to subsidiaries	(1,349)	(360)	–	1,709	–
Capital repayments by subsidiaries	4,296	–	–	(4,296)	–
Acquisition of businesses, net of cash acquired	–	360	–	(360)	–
Disposal of businesses, net of cash disposed	–	3	7	(3)	7
Net cash (used in) provided by investing activities	3,145	(616)	(1,022)	(3,160)	(1,653)
Cash flows from financing activities:					
Distributions on other equity instruments	(196)	–	–	–	(196)
Dividends paid to non-controlling interests	–	–	(19)	–	(19)
Interest paid on subordinated liabilities	(81)	(947)	(408)	647	(789)
Proceeds from issue of subordinated liabilities	629	–	–	–	629
Repayment of subordinated liabilities	(596)	(1,015)	(5,597)	5,425	(1,783)
Capital contributions received	–	–	1,709	(1,709)	–
Sale of non-controlling interest in TSB	–	204	–	–	204
Other changes in non-controlling interests	–	–	(9)	–	(9)
Return of capital contributions	–	(74)	1,930	(1,856)	–
Capital repayments to the Company	–	–	(6,350)	6,350	–
Net cash provided by (used in) financing activities	(244)	(1,832)	(8,744)	8,857	(1,963)
Effects of exchange rate changes on cash and cash equivalents	–	–	(10)	–	(10)
Change in cash and cash equivalents	(59)	(4,230)	3,337	59	(893)
Cash and cash equivalents at beginning of period	254	47,202	18,838	(254)	66,040
Cash and cash equivalents at end of period	195	42,972	22,175	(195)	65,147

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

LLOYDS BANKING GROUP plc

By:	/s/ G Culmer
Name:	George Culmer
Title:	Chief Financial Officer
Dated:	31 July 2015