Lloyds Banking Group plc
Form 6-K
July 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

31 JULY 2014

Commission File number 001-15246

LLOYDS BANKING GROUP plc

(Translation of registrant's name into English)

25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

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

Form 20-F S Form 40-F £

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

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

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-189150 and 333-189150-01) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

EXPLANATORY NOTE

This report on Form 6-K contains the interim report of Lloyds Banking Group plc, which includes the unaudited consolidated interim results for the half-year ended 30 June 2014, and is being incorporated by reference into the Registration Statement with File Nos. 333-189150 and 333-189150-01.

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the half-year ended 30 June 2014.

Statutory basis

Statutory results are set out on pages 55 to 114. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2014 results with 2013 is of limited benefit.

Underlying basis

In order to present a more meaningful view of business performance, the results of the Group and divisions are presented on an underlying basis. The following items are excluded from underlying profit:

- the amortisation of purchased intangible assets;
- the unwind of acquisition-related fair value adjustments;
- the effects of certain asset sales, liability management and volatile items;
- volatility relating to the insurance business;
- Simplification costs;
- TSB build and dual running costs;
- payment protection insurance and other regulatory provisions;
- certain past service pensions items in respect of the Group's Defined Benefit pension schemes; and
- insurance gross up.

Unless otherwise stated income statement commentaries throughout this document compare the half-year to 30 June 2014 to the half-year to 30 June 2013, and the balance sheet analysis compares the Group balance sheet as at 30 June 2014 to the Group balance sheet as at 31 December 2013.

Segment information

The segment results and balance sheet information have been restated to reflect the previously announced changes to the Group operating structure implemented from 1 January 2014.

TSB's results and key balance sheet information is reported as a separate segment in this document. The TSB numbers have been presented on a Lloyds Banking Group reporting basis. Consequently, TSB results disclosed in this document differ from the equivalent numbers disclosed in the TSB results release. These numbers have been prepared for Lloyds Banking Group investors to demonstrate the contribution of TSB to the Group. Investors in TSB should only rely on financial information published by TSB.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances that will or may occur. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; the ability to access sufficient funding to meet the Group's liquidity needs;

changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including changes in interest rates and exchange rates; changing demographic and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including as a possible result of the referendum on Scottish independence and also including changes to regulatory capital or liquidity requirements; the policies, decisions and actions of governmental or regulatory authorities in the UK and other jurisdictions in which the Group operates; the implementation of the Bank Recovery and Resolution Directive and Banking Reform Act; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to satisfactorily dispose of certain assets or otherwise meet the Group's EC State aid obligations; the provision of a range of banking operations services to TSB; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory and competition investigations or complaints, and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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LLOYDS BANKING GROUP PLC

SUMMARY OF RESULTS

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m	Change since 30 June 2013 %	Half-year to 31 Dec 2013 £m
Statutory results (IFRS)				
Total income, net of insurance claims	7,696	10,385	(26)	8,093
Total operating expenses	(6,192)	(6,568)	6	(8,754)
Trading surplus (deficit)	1,504	3,817	(61)	(661)
Impairment	(641)	(1,683)	62	(1,058)
Profit (loss) before tax	863	2,134	(60)	(1,719)
Profit (loss) attributable to ordinary shareholders	574	1,560	(63)	(2,398)
Basic earnings (loss) per share	0.8p	2.2p	(64)	(3.4)p
Underlying basis (page 6)				
Underlying profit	3,819	2,902	32	3,264

Capital and balance sheet	At 30 June 2014	At 31 Dec 2013	Change since 31 Dec 2013 %
Statutory			
Loans and advances to customers1	£487.1bn	£495.2bn	
Customer deposits2	£445.1bn	£438.3bn	
Loan to deposit ratio3	109%	113%	
PRA Transitional risk-weighted assets4,5	£257.4bn	£272.6bn	
PRA Transitional common equity tier 1 capital ratio4,5	11.1%	10.3%	

1 Excludes reverse repos of £4.3 billion (31 December 2013: £0.1 billion).
2 Excludes repos at 31 December 2013 of £3.0 billion. 30 June 2014: £nil.
3 Loans and advances to customers (excluding reverse repos) divided by customer deposits (excluding repos).
4 31 December 2013 comparatives reflect PRA transitional rules as at 1 January 2014.
5 31 December 2013 ratios and risk-weighted assets are reported on an adjusted basis and include the benefit of the sales of Heidelberger Leben, Scottish Widows Investment Partnership and the Group’s 50 per cent stake in Sainsbury’s Bank.

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STATUTORY INFORMATION (IFRS)

CONSOLIDATED INCOME STATEMENT

	Half-year to 30 June 2014 £ million	Half-year to 30 June 2013 £ million	Half-year to 31 Dec 2013 £ million
Interest and similar income	9,728	10,751	10,412
Interest and similar expense	(4,466)	(7,481)	(6,344)
Net interest income	5,262	3,270	4,068
Fee and commission income	1,836	2,194	1,925
Fee and commission expense	(609)	(730)	(655)
Net fee and commission income	1,227	1,464	1,270
Net trading income	4,588	11,015	5,452
Insurance premium income	3,492	3,851	4,346
Other operating income	(535)	2,472	777
Other income	8,772	18,802	11,845
Total income	14,034	22,072	15,913
Insurance claims	(6,338)	(11,687)	(7,820)
Total income, net of insurance claims	7,696	10,385	8,093
Regulatory provisions	(1,100)	(575)	(2,880)
Other operating expenses	(5,092)	(5,993)	(5,874)
Total operating expenses	(6,192)	(6,568)	(8,754)
Trading surplus	1,504	3,817	(661)
Impairment	(641)	(1,683)	(1,058)
Profit (loss) before tax	863	2,134	(1,719)
Taxation	(164)	(556)	(661)
Profit (loss) for the period	699	1,578	(2,380)
Profit (loss) attributable to ordinary shareholders	574	1,560	(2,398)
Profit attributable to other equity holders	91	–	–
Profit (loss) attributable to equity holders	665	1,560	(2,398)
Profit attributable to non-controlling interests	34	18	18
Profit (loss) for the period	699	1,578	(2,380)

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SUMMARY CONSOLIDATED BALANCE SHEET

Assets	At 30 June 2014 £ million	At 31 Dec 2013 £ million
Cash and balances at central banks	50,845	49,915
Trading and other financial assets at fair value through profit or loss	147,187	142,683
Derivative financial instruments	27,241	33,125
Loans and receivables:		
Loans and advances to banks	21,589	25,365
Loans and advances to customers	491,345	495,281
Debt securities	1,266	1,355
	514,200	522,001
Available-for-sale financial assets	50,348	43,976
Other assets	54,119	55,330
Total assets	843,940	847,030
Liabilities		
Deposits from banks	11,851	13,982
Customer deposits	445,091	441,311
Trading and other financial liabilities at fair value through profit or loss	63,046	43,625
Derivative financial instruments	25,285	30,464
Debt securities in issue	77,729	87,102
Liabilities arising from insurance and investment contracts	111,958	110,758
Subordinated liabilities	25,675	32,312
Other liabilities	37,427	48,140
Total liabilities	798,062	807,694
Shareholders' equity	39,601	38,989
Other equity instruments	5,329	–
Non-controlling interests	948	347
Total equity	45,878	39,336
Total equity and liabilities	843,940	847,030

Review of results

The Group recorded a profit before tax of £863 million for the half-year to 30 June 2014, a reduction of £1,271 million, or 60 per cent, compared to the profit before tax of £2,134 million for the half-year to 30 June 2013. The results in both periods have been significantly affected by one-off items, as described below. Adjusting for these items there was a modest increase in profitability.

Total income, net of insurance claims, decreased by £2,689 million, or 26 per cent, to £7,696 million for the half-year to 30 June 2014 from £10,385 million in the half-year to 30 June 2013.

In April 2014, the Group completed concurrent Sterling, Euro and Dollar exchange offers with holders of certain series of its Enhanced Capital Notes (ECNs) to exchange the ECNs for new Additional Tier 1 (AT1) securities. In addition, the Group completed a tender offer to eligible retail holders outside the United States to sell their Sterling-denominated ECNs for cash. The exchange offers completed with the equivalent of £4.0 billion of Sterling and Euro ECNs and approximately US$1.6 billion of US Dollar ECNs being exchanged for approximately £5.35 billion of AT1 securities. The retail tender offer completed with approximately £58.5 million of ECNs being repurchased for cash. A loss of £1,362 million has been recognised in relation to these exchange and tender transactions in the half-year to 30 June 2014. This has been partly offset by a gain of £128 million on the sale of Scottish Widows Investment Partnership which completed during the first half of the year.

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Review of results (continued)

During the first half of 2013, the Group recognised a gain of £433 million following the sale of part of its shareholding in St. James's Place plc and gains of £1,318 million on the sale of portfolios of US residential mortgage-backed securities and government bonds, partly offset by a loss of £256 million on the sale of the Group's Spanish retail banking operations. Adjusting for these items total income, net of insurance claims, was broadly flat at £8,930 million.

Net interest income increased by £1,992 million, to £5,262 million in the half-year to 30 June 2014 compared to £3,270 million in the same period in 2013. This increase reflected a decrease of £1,502 million in the charge within net interest income for amounts allocated to unit holders in Open-Ended Investment Companies, from £1,802 million in the half-year to 30 June 2013 to £300 million in the half-year to 30 June 2014 due to lower returns in this period. Excluding this charge, net interest income was £490 million, or 10 per cent, higher at £5,562 million in the half-year to 30 June 2014 compared to £5,072 million in the same period in 2013. There was an overall reduction in average interest-earning assets reflecting the rationalisation of the Group's balance sheet, partly mitigated by the impact of loan growth in targeted customer segments; however this was more than offset by the benefit of continued improvement in the net interest margin. The net interest margin increase was driven by improved deposit pricing and lower funding costs, partly offset by continued pressure on asset prices, principally in the mortgages segment. In addition, the net interest margin in the first half of 2014 benefited from the replacement of the Group's ECNs with Additional Tier 1 (AT1) securities, as the coupons on the AT1 securities are reported as distributions from equity reserves rather than within net interest income.

After adjusting for the one-off items referred to above, other income net of insurance claims decreased by £1,952 million, or 35 per cent, to £3,668 million in the half-year to 30 June 2014, compared to £5,620 million in the same period in 2013. This principally reflects reduced investment returns on unit-linked products consolidated via Open-Ended Investment Companies as a result of relatively subdued markets and also a reduction in the number of vehicles consolidated, in part as a consequence of the sale of Scottish Widows Investment Partnership. Net fee and commission income was also £237 million, or 16 per cent, lower at £1,227 million in the half-year to 30 June 2014 compared to £1,464 million in the half-year to 30 June 2013, as a result of the impact of the sale of the Group's majority investment in St. James's Place plc in 2013.

Total operating expenses decreased by £376 million, or 6 per cent, to £6,192 million in the half-year to 30 June 2014 compared to £6,568 million in the half-year to 30 June 2013. 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. Excluding regulatory provisions and the curtailment gain, total operating expenses decreased by £58 million, or 1 per cent, to £5,935 million in the half-year to 30 June 2014 compared to £5,993 million in the half-year to 30 June 2013. Costs have been reduced as a result of savings from Simplification initiatives and the reduction in the portfolio of assets which are outside of the Group's risk appetite; although these factors were partly offset by increased investment in the business. Simplification programme costs were £110 million higher at £519 million in the half-year to 30 June 2014, but this increase was partly offset by a reduction of £68 million in costs related to the EC mandated retail business disposal.

The Group charged a total of £1,100 million in respect of regulatory provisions in the half-year to 30 June 2014, compared to £575 million in the same period in 2013. The Group increased the provision for expected PPI costs by a further £600 million in the half-year to 30 June 2014. This brings the total amount provided to £10,425 million, of which approximately £2,190 million relates to anticipated administrative expenses and £2,268 million, or 22 per cent of the total provision, remained unutilised as at 30 June 2014. Total costs incurred in the first half of 2014 were £1,139 million and included £304 million of administration costs.

In late July, the Group reached settlements totalling £217 million (at 30 June 2014 exchange rate) with UK and US authorities regarding the manipulation of submissions to the British Bankers' Association London Interbank Offered Rate and Sterling Repo Rate between 2006 and 2009, as well as the associated systems and control failings, and in addition, the Group has paid nearly £8 million to the Bank of England to compensate for underpaid fees; these costs have been recognised in the first half results.

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Review of results (continued)

A further provision of £50 million has been made relating to the past sale of interest rate hedging products to certain small and medium-sized businesses.

In the course of its business, the Group is engaged in discussions with regulators and governmental authorities on a range of matters. Provisions are held against the costs expected to be incurred in respect of these discussions and other regulatory investigations. In the half-year to 30 June 2014, the Group made further provisions of £225 million in respect of a limited number of matters affecting the Retail division.

Impairment losses decreased by £1,042 million, or 62 per cent, to £641 million in the half-year to 30 June 2014 compared to £1,683 million in the half-year to 30 June 2013. There were lower charges across all the main lending portfolios and in the portfolio of assets which are outside of the Group’s risk appetite. The reduction reflects the Group’s effective portfolio management, prudent credit risk appetite, the improving economic conditions and the low interest rate environment.

The tax charge for the half-year to 30 June 2014 was £164 million (half-year to 30 June 2013: £556 million), reflecting a lower effective tax rate than the UK corporation tax rate as a result of tax exempt gains on sales of businesses.

On the balance sheet, total assets were £3,090 million, lower at £843,940 million at 30 June 2014, compared to £847,030 million at 31 December 2013. Loans and advances to customers decreased by £3,936 million, or 1 per cent, from £495,281 million at 31 December 2013 to £491,345 million at 30 June 2014, reflecting growth in the key customer segments being more than offset by the reduction in the portfolio of assets outside of the Group’s risk appetite. Customer deposits increased by £3,780 million, or 1 per cent, to £445,091 million at 30 June 2014 compared to £441,311 million at 31 December 2013, with growth in relationship deposits partly offset by a reduction in tactical brands. Overall funding requirements, however, were reduced and debt securities in issue were £9,373 million, or 11 per cent, lower at £77,729 million at 30 June 2014 compared to £87,102 million at 31 December 2013. Total equity increased by £6,542 million, or 17 per cent, from £39,336 million at 31 December 2013 to £45,878 million at 30 June 2014 as a result of the issue of £5,329 million of Additional Tier 1 Securities, the profit attributable to equity shareholders and positive valuation movements in the available-for-sale revaluation reserve and the cash flow hedging reserve, more than offsetting the impact of a negative post-retirement defined benefit scheme remeasurement.

The Group's PRA Transitional common equity tier 1 capital ratio increased to 11.1 per cent at the end of June 2014 from 10.3 per cent at the end of December 2013 (restated to reflect the impact of CRD IV rules as at 1 January 2014 and adjusted to include the benefit of the sales of Heidelberger Leben, Scottish Widows Investment Partnership and the Group’s 50 per cent stake in Sainsbury’s Bank), principally driven by the retained profit for the period, further dividends from the insurance business, changes to the Group’s defined benefit pension schemes, and a reduction in risk-weighted assets.

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

Underlying basis

	Half-year to 30 June 2014 £ million	Half-year to 30 June 2013 £ million	Half-year to 31 Dec 2013 £ million
Retail	1,710	1,300	1,715
Commercial Banking	1,156	854	1,036
Consumer Finance	534	509	456
Insurance	461	559	529
TSB	226	60	46
Run-off and Other	(268)	(380)	(518)
Underlying profit before tax	3,819	2,902	3,264

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 performance and allocate resources; this reporting is 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 65 of its financial statements in compliance with IFRS 8 Operating Segments.

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

LLOYDS BANKING GROUP PLC

GROUP PROFIT RECONCILIATIONS

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m	Half-year to 31 Dec 2013 £m
Underlying profit	3,819	2,902	3,264
Asset sales	94	775	(675)
Liability management	(1,376)	(97)	(45)
Own debt volatility	225	(166)	(55)
Other volatile items	(73)	(136)	(321)
Volatility relating to the insurance business	(122)	485	183
Fair value unwind	(315)	36	(264)
Simplification and TSB costs	(828)	(786)	(731)
Payment protection insurance provision	(600)	(500)	(2,550)
Other regulatory provisions	(500)	(75)	(330)
Past service pensions credit (charge)	710	(104)	–
Amortisation of purchased intangibles	(171)	(200)	(195)
Profit (loss) before tax – statutory	863	2,134	(1,719)

Asset sales
The net gain from asset sales of £94 million includes a gain of £122 million from the sale of Scottish Widows Investment Partnership, offset by a number of small losses from other disposals. This compares to a net gain in the first half of 2013 of £775 million which included £780 million of gains on the sale of government securities. There were no such gains on the sale of government securities in the first half of 2014.

Liability management
In March and April of 2014, the Group issued £5.35 billion of AT1 securities in exchange for £5.0 billion (nominal) of ECNs. As a result the Group was the first European bank to meet its AT1 requirement under the new capital framework established under CRD IV and benefited the Group's leverage ratios, gave rise to liability management losses of £1,362 million in the first half of 2014.

Own debt volatility
Own debt volatility includes a gain of £226 million (half-year to 30 June 2013: charge of £142 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 £25 million gain 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, this compares to a gain of £5 million in the first half of 2013.

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 charge of £127 million (a charge of £79 million was incurred in the first half of 2013). Other volatile items also include a positive net derivative valuation adjustment of £54 million (half-year ended 30 June 2013: a charge of £57 million), reflecting movements in the market implied credit risk associated with customer derivative balances.

Volatility relating to the insurance business

The Group's statutory profit before tax is affected by insurance volatility caused by movements in financial markets generating a variance against expected returns, and policyholder interests volatility, which primarily reflects the gross up of policyholder tax included in the Group tax charge. Volatility relating to the insurance business reduced the Group's statutory profit by £122 million in the first half of 2014, principally reflecting lower than expected returns on equity markets and cash investments. This compares to positive insurance volatility of £485 million in the first half of 2013 that was driven by strong equity market performance in the period.

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GROUP PROFIT RECONCILIATIONS (continued)

Fair value unwind

The fair value unwind moved from a net benefit of £36 million in the first half of 2013 driven by asset-related unwind, to a net charge of £315 million largely relating to the subordinated debt acquired as part of the HBOS acquisition in 2009.

Simplification and TSB costs

The Simplification programme continues to deliver significant efficiency savings across the Group. The programme will complete in 2014 and is expected to realise annual run-rate cost savings of £2 billion by the end of the year. Costs associated with the programme amounted to £519 million in the first half, with £2,210 million spent in total on the programme to date.

In the first half of 2014, the Group achieved a significant milestone in the European Commission (EC) mandated business disposal of TSB, launching an initial public offering (IPO) through which the Group sold a 38.5 per cent stake in TSB. TSB costs in the first half totalled £309 million and included £171 million of build costs and £138 million of dual-running costs. The dual running costs, which include the costs of TSB's standalone treasury, finance, human resources and other head office functions, will continue to be reflected in the Group's statutory profit until ownership reduces to a level at which TSB is no longer reported as a fully-consolidated subsidiary. From inception to the end of June 2014, costs associated with the build of TSB and the dual-running of its standalone functions have totalled £1,777 million.

Payment protection insurance (PPI)

The Group increased the provision for expected PPI costs by a further £600 million in the second quarter. This brings the total amount provided to £10,425 million, of which approximately £2,190 million relates to anticipated administrative expenses and £2,268 million, or 22 per cent of the total provision, remained unutilised as at 30 June 2014. Total costs incurred in the first half of 2014 were £1,139 million and included £304 million of administration costs.

The volume of reactive PPI complaints continues to fall and in the first six months of 2014 was approximately 30 per cent lower than the same period last year, with a 7 per cent reduction between the first and second quarters. However they were higher than forecast and, as a result, the Group is forecasting a slower decline than previously expected, with the increased provision accounting for an extra 155,000 complaints at a cost of approximately £260 million, net of a benefit from redress per policy being lower than expected.

The Group has made substantial progress in the proactive mailing exercise connected to the Past Business Review (PBR). As at 30 June 2014, over 95 per cent of all PBR customers had been mailed, with some second mailings and case review activity continuing into the second half of the year. While the response rates of most cohorts are in line with expectations, additional mailings to some cohorts have resulted in a higher overall response rate. In addition, the PBR mailings are leading to a higher number of policies per customer being reviewed than originally expected. These adverse trends account for £150 million of the provision increase, net of a redress per policy benefit as above.

Given these updated complaints and PBR forecasts, the Group has also increased its estimate for administrative expenses which accounts for £190 million of the increased provision.

The total amount provided for PPI represents the Group's best estimate of the likely future costs. These costs are expected to remain at around the current run-rate of £200 million per month until the Group has completed all payment on both PBR and remediation activity, with ongoing costs subsequently reducing significantly. However, a number of risks and uncertainties remain, in particular complaint volumes, uphold rates, average redress costs, the cost of proactive mailings and remediation, and the outcome of the Financial Conduct Authority (FCA) Enforcement Team investigation. The cost of these factors could differ materially from the Group's estimates, with the risk that a further provision could be required.

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GROUP PROFIT RECONCILIATIONS (continued)

Other regulatory provisions
In late July, the Group reached settlements totalling £217 million (at 30 June 2014 exchange rates) with the UK Financial Conduct Authority (FCA), the United States Commodity Futures Trading Commission (CFTC) and the United States Department of Justice (DOJ) regarding the manipulation of submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate between 2006 and 2009, as well as the associated systems and control failings. In addition to these regulatory settlements, the Group has paid nearly £8 million to the Bank of England to compensate for fees that were underpaid as a direct consequence of the manipulation of the Sterling Repo Rate in 2008 and 2009. All of these costs have been recognised in the first half results.

A further provision of £50 million has been made relating to the past sale of interest rate hedging products to certain small and medium-sized businesses. This brings the amount provided to £580 million, of which £218 million relates to administration costs and £161 million remained unutilised as at 30 June 2014. During the first half, the Group has made good progress in dealing with this issue, having reviewed 95 per cent of the sales currently in scope.

In the course of its business, the Group is engaged in discussions with the Prudential Regulatory Authority (PRA), FCA and other UK and overseas regulators and governmental authorities on a range of matters. Provisions are held against the costs expected to be incurred in respect of these discussions and other regulatory investigations. In the second quarter the Group made further provisions of £225 million, in respect of a limited number of matters affecting the Retail division, including potential remediation in relation to legacy sales of investment and protection products and historic systems and controls governing legacy incentive schemes.

Past service pensions credit (charge)
The Group has 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 £171 million in the half-year to 30 June 2014 (half-year to 30 June 2013: £200 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.

LLOYDS BANKING GROUP PLC

DIVISIONAL HIGHLIGHTS

RETAIL

Retail offers a broad range of financial service products, including current accounts, savings, personal loans and mortgages, in the UK to retail customers, and now incorporates wealth and small business customers. It is also a distributor of insurance, protection and credit cards, and through Wealth, a range of long-term savings and investment products. Retail has continued to make progress in delivering its customer-led, multi-brand and multi-channel strategy to be the best bank for customers in the UK, with a primary focus on meeting the needs of its customers through investment in service, products and distribution.

Progress against strategic initiatives

- Further success in simplifying the business, improving processes and enhancing the customer experience with Net Promoter Scores increasing by 4 per cent since the end of 2013.
- Continued development of digital capability with active online user base increasing to over 10 million customers, including more than 4.5 million active mobile users, and the launch of new mobile banking applications.
- Continue to attract new customers with net positive switching in the first half of 2014, particularly in the Halifax challenger brand.
- Launched innovative products, including the Lloyds Bank 'Club Lloyds' proposition, which rewards customers with a combination of credit interest, lifestyle benefits and exclusive mortgage and savings loyalty offers. Over 320,000 customers have joined since launch in March.
- Two new unsecured lending products launched in 2014; flexible loans, enabling customers to repay loans without early settlement fees, and e-loans, allowing customers to manage their loan online.
- Launched an 18-month cash ISA and extended the ISA Promise to stocks and shares transfers following recent government announcements.
- Continuing to exceed the lending commitment to first-time buyers with lending of £5.7 billion to over 43,000 customers. In the first half of the year, Retail lent £892 million through the Help to Buy mortgage guarantee scheme, in which it is the largest participant and provided one-in-five of all mortgage loans to customers buying their homes in the UK.
- Supported over 52,000 new business start-ups during the first half of 2014, and are continuing to integrate the support of small business customers into the Retail infrastructure.
- Continued progress integrating Wealth into the Retail infrastructure with branch referrals up by over 15 per cent compared with the end of 2013.

Financial performance

- Underlying profit increased 32 per cent to £1,710 million.
- Net interest income increased 15 per cent. Margin performance was strong, increasing 31 basis points year-on-year to 2.28 per cent, driven by improved deposit mix and margin, more than offsetting reduced lending rates.
- Other income down 5 per cent, with lower income from branch protection sales and Wealth related fee income due to the residual impact of regulatory changes.
- Total costs up 10 per cent to £2,207 million, primarily reflecting timing of recognition of FSCS costs as well as higher indirect overheads previously absorbed in the TSB segment.
- Impairment reduced 40 per cent to £276 million, with secured and unsecured charges decreasing consistent with lower impaired loan balances.

Balance sheet

-

Loans and advances to customers were slightly ahead of December 2013 at £315.2 billion. Lending books open to new business (excludes specialist book and Intelligent Finance) grew 2 per cent year-on-year. Gross new mortgage lending in the first half was £19.8 billion, an increase of 44 per cent compared to the first half of 2013, outperforming market growth.

- Customer deposits increased to £284.3 billion with relationship balances (including Lloyds, Halifax and Bank of Scotland) up 5 per cent year-on-year.
- Risk-weighted assets decreased by £2.1 billion to £70.8 billion driven by improving house prices and an improvement in the credit quality of retail assets.

LLOYDS BANKING GROUP PLC

RETAIL (continued)

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013[1] £m	Change %	Half-year to 31 Dec 2013[1] £m	Change %
Net interest income	3,493	3,036	15	3,464	1
Other income	700	733	(5)	702	–
Total underlying income	4,193	3,769	11	4,166	1
Total costs[2]	(2,207)	(2,007)	(10)	(2,153)	(3)
Impairment	(276)	(462)	40	(298)	7
Underlying profit	1,710	1,300	32	1,715	–
Banking net interest margin	2.28%	1.97%	31bp	2.22%	6bp
Asset quality ratio	0.18%	0.29%	(11)bp	0.18%	–
Return on risk-weighted assets	4.82%	3.21%	161bp	4.43%	39bp

Key balance sheet items	At 30 June 2014 £bn	At 31 Dec 2013[1] £bn	Change %
Loans and advances to customers	315.2	314.3	–
Customer deposits	284.3	283.2	–
Total customer balances	599.5	597.5	–
Risk-weighted assets under rules prevailing on 1 January 2014	70.8	72.9	(3)
Risk-weighted assets under rules prevailing on 31 December 2013		73.1	

1 Restated to reflect previously announced changes to the Group operating structure implemented from 1 January 2014.

2 Includes costs that in 2013 were allocated to TSB but following separation have been charged to Retail. In 2013, the costs allocated to TSB were £105 million in the first half and £112 million in the second half.

LLOYDS BANKING GROUP PLC

COMMERCIAL BANKING

Commercial Banking is client led, focusing on SME, Mid Markets, Global Corporates and Financial Institution clients providing products across Lending, Global Transaction Banking, Financial Markets and Debt Capital Markets; and private equity financing through Lloyds Development Capital.

Progress against strategic initiatives

- Continued progress towards the 2015 target of delivering sustainable returns on risk-weighted assets of over 2 per cent through the delivery of low risk, client focused strategy.
- Continued to Help Britain Prosper: net growth in SME lending of 5 per cent in the last 12 months, against market contraction of 3 per cent; committed over £6.5 billion to UK customers through Funding for Lending and around £0.6 billion to UK manufacturing in the last six months; and helped clients access £3.9 billion of non-bank lending.
- Improved SME client experience by doubling the lending discretion of the most senior relationship managers and reducing the number of clients per relationship manager. The transfer of small business clients with less complex needs to Retail has enabled the larger SME clients to benefit from improved service from their Relationship Manager.
- Increased the number of Mid Markets clients through the local relationship management offering with particularly strong performance in the Manufacturing, Business Services, and Local Authorities sectors.
- Enhanced returns in Global Corporates as a result of continued capital optimisation and a resilient income performance in challenging market conditions.
- Year-on-year income growth in Financial Institutions through meeting a broader range of clients' needs; launched the first Environmental, Social and Governance bond by any UK bank.
- Continued to invest in core infrastructure, implementing significant upgrades to deliver scalability and functionality in the Global Transaction Banking and Financial Markets platforms.

Financial performance

- Underlying profit of £1,156 million, up 35 per cent on 2013, driven by strong income growth in Mid Markets and Financial Institutions and significantly lower impairments across all client segments.
- Income increased by 3 per cent to £2,218 million as a result of increased net interest income in all client segments offset by a softer performance in other income reflecting difficult financial market conditions.
- Net interest margin increased 47 basis points as a result of disciplined pricing of new lending, customer repricing in deposits and a reduction in funding costs helped by the increase in Global Transaction Banking deposits.
- Other income decreased 15 per cent due to lower client volumes in Debt Capital Markets and Financial Markets in line with the wider external market.
- Asset quality ratio improved 50 basis points reflecting lower gross charges, improved credit quality and continuing progress in executing the strategy of building a low risk commercial bank
- Return on risk-weighted assets increased by 58 basis points to 1.96 per cent.

Balance sheet

- Lending has decreased by 3 per cent from December 2013 as a result of selective participation in Global Corporates, partially offset by growth in SME and Financial Institutions.
- Customer deposits increased by 6 per cent as a result of growth in Global Transaction Banking balances, growing by 11 per cent year-on-year with growth in all client segments.
- Risk-weighted assets have decreased by £10 billion with reductions in Credit and Market risk-weighted assets driven by active portfolio optimisation in Global Corporates to improve returns.

LLOYDS BANKING GROUP PLC

COMMERCIAL BANKING (continued)

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013[1] £m	Change %	Half-year to 31 Dec 2013[1] £m	Change %
Net interest income	1,234	1,009	22	1,104	12
Other income	984	1,154	(15)	1,105	(11)
Total underlying income	2,218	2,163	3	2,209	–
Total costs	(1,033)	(1,024)	(1)	(1,060)	3
Impairment	(29)	(285)	90	(113)	74
Underlying profit	1,156	854	35	1,036	12
Banking net interest margin	2.63%	2.16%	47bp	2.26%	37bp
Asset quality ratio	0.05%	0.55%	(50)bp	0.21%	(16)bp
Return on risk-weighted assets	1.96%	1.38%	58bp	1.69%	27bp

Key balance sheet items	At 30 June 2014 £bn	At 31 Dec 2013[1] £bn	Change %
Loans and advances to customers	104.7	108.0	(3)
Debt securities and available-for-sale financial assets	1.7	1.7	–
	106.4	109.7	(3)
Customer deposits	117.2	110.5	6
Risk-weighted assets under rules prevailing on 1 January 2014	114.0	124.0	(8)
Risk-weighted assets under rules prevailing on 31 December 2013		120.8	

1 Restated to reflect previously announced changes to the Group operating structure implemented from 1 January 2014.

LLOYDS BANKING GROUP PLC

CONSUMER FINANCE

The Consumer Finance division comprises the consumer and corporate Credit Card businesses, along with the Black Horse motor financing and Lex Autolease car leasing businesses in Asset Finance. The Group's European deposits and Dutch retail mortgage businesses are managed within Asset Finance.

Progress against strategic initiatives

- UK loan growth of 11 per cent year-on-year, up from 9 per cent at the first quarter of 2014.
- New business growth of 70 per cent within Black Horse, supported by the launch of the Jaguar Land Rover partnership in the first quarter of 2014 and strong underlying business performance.
- Growth of 17 per cent in new Lex Autolease vehicle deliveries with leads from the franchise in the first half of 2014 exceeding full year 2013.
- Growth in new consumer credit cards including a 5 per cent increase in new accounts opened and an 11 per cent increase in balance transfer volumes from new and existing customers.
- Growth in transaction volumes within the Cardnet Acquiring Solutions business, driven in part by new partnerships.
- Customer needs re-emphasised as the central driver of product and service offerings through the launch of the division-wide Customer First operating model.

Financial performance

- Underlying profit increased by 5 per cent to £534 million driven by significant reductions in impairment charges across the portfolio and income growth across Asset Finance, partially offset by a fall in income attributable to Cards.
- Net interest income reduced by 4 per cent to £645 million driven by new business acquisition within Cards from which benefits are expected to follow in future periods, partly offset by net lending growth in Black Horse and pricing reductions in Online Deposits. Other income was broadly in line with the first half of 2013.
- Net interest margin reduced by 35 basis points to 6.69 per cent, reflecting a strong focus on acquiring balance transfers in Cards, coupled with a greater mix of balances from Asset Finance lending, offset by the deposit re-pricing in the Online Deposits business.
- Total cost increases of 6 per cent were driven by investment as Consumer Finance began in the second half of 2013 to reposition the portfolio for growth.
- Impairment charges reduced by 56 per cent to £78 million driven by both a continued underlying improvement of portfolio quality and the sale of recoveries assets in the Credit Cards and Asset Finance portfolios.
- Return on risk-weighted assets increased to 5.20 per cent driven by low levels of impairment across the portfolio and a strong performance within the Asset Finance businesses. Consumer Finance does not expect this trend to continue in the short-term as the Division focuses on investing for sustainable growth and expect a normalisation of impairment charges.

Balance sheet

- Net lending increased by 4 per cent since December to £19.9 billion and by 5 per cent year-on-year, driven by growth across both the underlying and the Jaguar Land Rover portfolios within Black Horse.
- Operating lease assets increased by 4 per cent since December to £2.9 billion and by 6 per cent year-on-year, reflecting growth in the Lex Autolease fleet where the stock of vehicles has grown by 3 per cent since December and by 5 per cent year-on-year.
- Customer deposits reduced by 7 per cent since December, and by 13 per cent year-on-year, within Online Deposits following deposit re-pricing activity.

- Risk-weighted assets increased by 7 per cent broadly in line with growth in net lending.

LLOYDS BANKING GROUP PLC

CONSUMER FINANCE (continued)

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013[1] £m	Change %	Half-year to 31 Dec 2013[1] £m	Change %
Net interest income	645	670	(4)	663	(3)
Other income	675	681	(1)	678	–
Total underlying income	1,320	1,351	(2)	1,341	(2)
Total costs	(708)	(665)	(6)	(719)	2
Impairment	(78)	(177)	56	(166)	53
Underlying profit	534	509	5	456	17
Banking net interest margin	6.69%	7.04%	(35)bp	6.84%	(15)bp
Asset quality ratio	0.78%	1.84%	(106)bp	1.68%	(90)bp
Return on risk-weighted assets	5.20%	4.67%	53bp	4.30%	90bp

Key balance sheet items	At 30 June 2014 £bn	At 31 Dec 2013[1] £bn	Change %
Loans and advances to customers	19.9	19.1	4
Customer deposits	17.4	18.7	(7)
Operating lease assets	2.9	2.8	4
Total customer balances	40.2	40.6	(1)
Risk-weighted assets under rules prevailing on 1 January 2014	21.5	20.1	7
Risk-weighted assets under rules prevailing on 31 December 2013		20.1	

1 Restated to reflect previously announced changes to the Group operating structure implemented from 1 January 2014.

LLOYDS BANKING GROUP PLC

INSURANCE

Insurance is a core part of Lloyds Banking Group and is focused on four key markets: Corporate Pensions, Protection, Retirement and Home Insurance, to enable customers to protect themselves today and prepare for a secure financial future.

Progress against strategic initiatives

- In Corporate Pensions, where the Group is a market leader, Insurance have supported almost 1,500 employers, representing more than 140,000 employees, through auto enrolment in the first half of 2014.
- Following the recent Budget announcements, Insurance have extended the cooling off period for annuity clients and as anticipated, have seen a reduction in demand. Insurance will further develop its product range in the retirement market; with access to over 24 million Retail customers and broad product offerings, Insurance is very well placed to support the retirement planning of customers.
- The Group is the largest writer of Home Insurance in the UK and Insurance is progressing plans to increase its share of the underwritten market through bringing a significant proportion of the annual £150 million direct broked business in house, allowing all customers to access the strong claims service.
- Customers impacted by the storms and floods in January and February benefited from Insurance's high quality claims service with 95 per cent of claims settled so far and more than a quarter of displaced customers already back in their homes.
- Insurance relaunched the Scottish Widows brand in February 2014 demonstrating the continued commitment to being a leader in the life planning and retirement market.
- Despite increased investment in strategic initiatives, overall costs reduced by 2 per cent reflecting ongoing benefits from the Simplification programmes and centralisation of operations within the Group.

Financial performance

- Underlying profit was down 18 per cent to £461 million primarily reflecting the £100 million impact, on the existing book, of the Department of Work and Pension's (DWP) proposed fee cap on corporate pensions.
- Excluding the immediate one-off DWP impact, both income and profits are in line with prior year with the benefits arising from acquisition of attractive, higher yielding assets coupled with improved economics offsetting increased weather-related claims and lower new business income.
- The increase in general insurance claims and combined ratio reflects increased weather claims as almost 25,000 customers were impacted by storms and floods in January and February.
- Operating cash generation has remained robust at £380 million, net of £153 million invested in new business.
- As expected Life, Pensions and Investments (LP&I) new business margin has been impacted by competitive pricing in the annuities market and an increasing mix of auto enrolment business.
- Funds under management have increased by £1.5 billion, primarily reflecting net inflows on corporate pensions.
- As expected LP&I sales (PVNBP) reduced by 14 per cent relative to the significant spike in 2013 pensions volumes as a result of the Retail Distribution Review, however the trend is improving with a strong auto enrolment performance driving an increase relative to the second half of last year.

Capital

- The Insurance business has remitted £0.4 billion of dividends to the Group in 2014, in addition to the £0.3 billion of Heidelberger Leben sale proceeds, whilst maintaining a strong capital base. This increased the total dividends paid to the Group in the last 18 months to £2.9 billion.
- The estimated capital surplus for Pillar 1 is £2.5 billion (Scottish Widows plc, £2.7 billion for 2013) and for Insurance Groups Directive is £2.7 billion (Insurance Group, £2.9 billion for 2013) with the decrease reflecting the

dividends paid over the period.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013[1] £m	Change %	Half-year to 31 Dec 2013[1] £m	Change %
Net interest income	(64)	(49)	(31)	(58)	(10)
Other income	1,029	1,093	(6)	1,127	(9)
Insurance claims	(175)	(148)	(18)	(208)	16
Total underlying income	790	896	(12)	861	(8)
Total costs	(329)	(337)	2	(332)	1
Underlying profit	461	559	(18)	529	(13)
Operating cash generation	380	377	1	305	25
UK LP&I IFRS new business margin	1.5%	3.0%	(1.5)pp	2.0%	(0.5)pp
UK LP&I sales (PVNBP)[2]	4,680	5,430	(14)	4,504	4
General Insurance total GWP	604	665	(9)	642	(6)
General Insurance combined ratio	80%	69%	11pp	77%	3pp

1 Restated to reflect previously announced changes to the Group operating structure implemented from 1 January 2014.
2 Present value of new business premiums.

Profit by product group

	Half-year to 30 June 2014					Half-year to 30 June 2013	Half-year to 31 Dec 2013
	Pensions & investments £m	Protection & retirement[1] £m	General Insurance £m	Other[2] £m	Total £m	Total £m	Total £m
New business income	107	42	–	2	151	250	173
Existing business income	324	62	–	59	445	395	412
Assumption changes and experience variances	(101)	102	–	(6)	(5)	(2)	72
General Insurance income net of claims	–	–	199	–	199	253	204
Total underlying income	330	206	199	55	790	896	861
Total costs	(183)	(65)	(69)	(12)	(329)	(337)	(332)