Lloyds Bank plc
{formerly Lloyds TSB Bank plc}

Half-Year Management Report

For the half-year to 30 June 2014

Member of the Lloyds Banking Group

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of Lloyds Bank plc and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Lloyds Bank Group or the Lloyds Bank 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 Lloyds Bank 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 Lloyds Banking Group's Simplification programme; the ability to access sufficient funding to meet the Lloyds Bank Group's liquidity needs; changes to the Lloyds Bank plc's or Lloyds Banking Group plc'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 Lloyds Bank 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 Lloyds Banking Group plc and the Lloyds Bank Group as a result of HM Treasury's investment in the Lloyds Banking Group plc; the ability to satisfactorily dispose of certain assets or otherwise meet the Lloyds Banking 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 Lloyds Banking Group plc's latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Lloyds Bank Group undertakes no obligation to update any of its forward looking statements.

CONTENTS

FINANCIAL REVIEW

Principal activities

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

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

Review of results

The Group recorded a profit before tax of £1,818 million for the half-year to 30 June 2014, a reduction of £729 million, or 29 per cent, compared to the profit before tax of £2,547 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 £2,139 million, or 20 per cent, to £8,656 million for the half-year to 30 June 2014 from £10,795 million in the half-year to 30 June 2013.

The Group recognised a gain of £128 million on the sale of Scottish Widows Investment Partnership which completed during the first half of the year. 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, decreased by £772 million, or 8 per cent, to £8,528 million for the half-year to 30 June 2014 from £9,300 million in the half-year to 30 June 2013.

Net interest income increased by £1,971 million, to £5,077 million in the half-year to 30 June 2014 compared to £3,106 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 £469 million, or 10 per cent, higher at £5,377 million in the half-year to 30 June 2014 compared to £4,908 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 business.

After adjusting for the one-off items referred to above, other income net of insurance claims decreased by £2,743 million, or 44 per cent, to £3,451 million in the half-year to 30 June 2014, compared to £6,194 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 £220 million, or 15 per cent, lower at £1,234 million in the half-year to 30 June 2014 compared to £1,454 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 £368 million, or 6 per cent, to £6,197 million in the half-year to 30 June 2014 compared to £6,565 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.

FINANCIAL REVIEW (continued)

Excluding regulatory provisions and the curtailment gain, total operating expenses decreased by £50 million, or 1 per cent, to £5,940 million in the half-year to 30 June 2014 compared to £5,990 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.

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 continued low interest rate environment.

The tax charge for the half-year to 30 June 2014 was £384 million (half-year to 30 June 2013: £599 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 £2,478 million, lower at £859,526 million at 30 June 2014, compared to £862,004 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 good growth in relationship deposits partly offset by a reduction in tactical brands. Overall funding requirements, however, were reduced and debt securities in issue were £9,366 million, or 11 per cent, lower at £77,220 million at 30 June 2014 compared to £86,586 million at 31 December 2013. Shareholders' equity increased by £1,584 million, or 4 per cent, from £43,739 million at 31 December 2013 to £45,323 million at 30 June 2014 as a result of 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.

FINANCIAL REVIEW (continued)

The Group's common equity tier 1 capital ratio was 13.4 per cent at the end of June 2014 compared to a core tier 1 capital ratio of 16.0 per cent at the end of December 2013 (not restated for the implementation of CRD IV on 1 January 2014), with 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 more than offset by additional risk-weighted assets and increased deductions from the implementation of CRD IV. The total capital ratio was 21.2 per cent compared to 22.2 per cent at 31 December 2013 (not restated for the implementation of CRD IV on 1 January 2014).

FINANCIAL REVIEW (continued)

Capital ratios

Capital resources	**At 30 June 2014 £m**	At 31 Dec 2013[1] £m
Common equity/core tier 1		
Shareholders' equity	**45,323**	43,739
Deconsolidation of insurance entities	**(1,511)**	–
Regulatory filters:		
Unrealised reserve on available-for-sale securities	**–**	1,273
Adjustment for own credit	**165**	185
Cash flow hedging reserve	**481**	827
Other adjustments	**554**	484
	45,012	46,508
Less: deductions from common equity/core tier 1		
Goodwill and other intangible assets	**(1,966)**	(3,815)
Excess of expected losses over impairment provisions and value adjustments	**(714)**	(373)
Removal of defined benefit pension surplus	**(274)**	(78)
Securitisation deductions	**(148)**	(71)
Significant investments	**(2,235)**	–
Deferred tax assets	**(4,934)**	–
Common equity/core tier 1 capital	**34,741**	42,171
Additional tier 1		
Additional tier 1 instruments	**5,442**	6,467
Less: deductions from tier 1		
Significant investments	**(677)**	(3,859)
Total tier 1 capital	**39,506**	44,779
Tier 2		
Tier 2 instruments	**15,789**	20,965
Unrealised gains on available-for-sale equity investments	**–**	135
Eligible provisions	**522**	359
Less: deductions from tier 2		
Excess of expected losses over impairment provisions and value adjustments	**–**	(373)
Securitisation deductions	**–**	(71)
Significant investments	**(1,015)**	(3,859)
Total tier 2 capital	**15,296**	17,156
Supervisory deductions		
Connected lending of a capital nature	**–**	(3,275)
Total supervisory deductions	**–**	(3,275)
Total capital resources	**54,802**	58,660
Risk-weighted assets	**258,749**	263,850
Common equity/core tier 1 capital ratio	**13.4%**	16.0%
Tier 1 capital ratio	**15.3%**	17.0%
Total capital ratio	**21.2%**	22.2%

[1] Calculated in line with the rules prevailing at 31 December 2013 and not restated for the implementation of CRD IV on 1 January 2014.

PRINCIPAL RISKS AND UNCERTAINTIES

At present the most significant risks faced by the Group are:

Credit risk

Principal risks

As a provider of credit facilities to personal and commercial customers, together with financial institutions and Sovereigns, any adverse changes in the economic and market environment we operate in, or the credit quality and/or behaviour of our borrowers and counterparties would reduce the value of our assets and increase our write-downs and allowances for impairment losses, adversely impacting profitability.

Mitigating actions

- Credit policy incorporating prudent lending criteria aligned with the Lloyds Banking Group Board approved risk appetite to effectively manage credit risk.
- Clearly defined levels of authority ensure we lend appropriately and responsibly with separation of origination and sanctioning activities.
- Robust credit processes and controls including well-established committees to ensure distressed and impaired loans are identified early, considered and controlled with independent credit risk assurance.

Conduct risk

Principal risks

As a major financial services provider we face significant conduct risk, including selling products to customers which do not meet their needs; failing to deal with customers' complaints effectively; not meeting customer expectations; and exhibiting behaviours which do not meet market or regulatory standards.

Mitigating actions

- Customer focused conduct strategy implemented to ensure customers are at the heart of everything we do.
- Product approval, review process and outcome testing supported by conduct management information.
- Clearer customer accountabilities for colleagues, including rewards with customer-centric metrics.
- Learn from past mistakes including root cause analysis.

Market risk

Principal risks

We face a number of key market risks including credit spreads and interest rate risk across the Banking and Insurance businesses. However, our most significant market risk is from the Defined Benefit Pension Schemes where asset and liability movements impact on our capital position.

Mitigating actions

- A rates hedging programme is in place to reduce liability risk.
- Lloyds Banking Group Board approved pensions risk appetite covering interest rate, credit spreads and equity risks.
- Credit assets and alternative assets are being purchased by the schemes as the equities are sold.
- Stress and scenario testing.

Operational risk

Principal risks

We face a number of key operational risks including fraud losses and failings in our customer processes. The availability, resilience and security of our core IT systems is the most significant.

Mitigating actions

- Regularly review IT system architecture to ensure systems are resilient, readily available for our customers and secure from cyber attack.
- Continue to implement actions from IT resilience review conducted in 2013 to reflect enhanced demands on IT both in terms of customer and regulator expectations.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Funding and liquidity

Principal risks

Our funding and liquidity position is supported by a significant and stable customer deposit base. However, a deterioration in either our or the UK's credit rating affecting the Lloyds Banking Group's wholesale funding capacity or a sudden and significant withdrawal of customer deposits could adversely impact our funding and liquidity position.

Mitigating actions

- Hold a large pool of unencumbered primary liquid assets and maintains a further large pool of secondary assets that can be used to access Central Bank liquidity facilities.
- Carry out daily monitoring against a number of market and Lloyds Banking Group specific early warning indicators and regularly stress tests its liquidity position against a range of scenarios.
- Lloyds Banking Group has a contingency funding plan embedded within the liquidity policy which is designed to identify emerging liquidity concerns at an early stage.

Capital risk

Principal risks

Our future capital position is potentially at risk from adverse financial performance and the introduction of higher capital requirements for distinct risks, sectors or as a consequence of specific UK regulatory requirements.

Mitigating actions

- Close monitoring of actual capital ratios to ensure that we comply with current regulatory capital requirements and are well positioned to meet future requirements.
- Internal stress testing results to evidence sufficient levels of capital adequacy for Lloyds Banking Group under various scenarios.
- Lloyds Banking Group can accumulate additional capital in a variety of ways including raising equity via a rights issue or debt exchange and by raising tier 1 and tier 2 capital.

Regulatory risk

Principal risks

Due to the nature of the industry we operate in we have to comply with a complex and demanding regulatory change agenda. Regulatory initiatives we have been working on in the first six months of 2014 include CRD IV, the new FCA Consumer Credit regime and the Dodd-Frank and Foreign Account Tax Compliance Act 2010. The sanctions for failing to comply far outweigh the costs of implementation. We also face the implications of the Banking Reform Act and potential outcomes of the proposed CMA review of Retail current accounts and SME Banking.

Mitigating actions

- The Lloyds Banking Group Legal, Regulatory and Mandatory Change Committee ensures we drive forward activity to develop plans for regulatory changes and tracks progress against those plans.
- Continued investment in our people, processes and IT systems is enabling us to meet our regulatory commitments.
- Engagement with the regulatory authorities on forthcoming regulatory changes and market review.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

State aid

Principal risks

HM Treasury currently holds 24.9 per cent of the Lloyds Banking Group's share capital. We continue to operate without government interference in the day-to-day management decisions, however there is a risk that a change in government priorities could result in the current framework agreement being replaced, leading to interference in the operations of the Group. Failure to meet the EU State aid commitments arising from this government support could lead to sanctions.

Mitigating actions

- Most EU State aid commitments now met with the completion of the divestment of TSB Bank outstanding.
- Divestment of the TSB business through the Initial Public Offering (IPO) in June 2014 and subsequent sales of its residual holding by the divestment deadline of end December 2015. There is provision for a further date extension to the divestment deadline, depending on market conditions.
- 38.5 per cent of the existing Ordinary Shares in TSB Bank have been sold to date, with an initial 35.0 per cent sold on 20 June 2014 and the over-allotment option of a further 3.5 per cent taken up on 18 July 2014.

Scottish Independence

Principal risks

The impact of a 'Yes' vote in favour of Scottish Independence is uncertain. The outcome could have a significant impact on the legal, regulatory, currency and tax regime to which Lloyds Banking Group are currently subject and could also result in the Group becoming subject to a new regulatory, currency and tax regime in Scotland. The effect of this could be to increase compliance, operational and funding costs for the Group in addition to any transition costs.

Mitigating actions

- Monitoring and assessment of the potential impact on customers and the Group's business of a vote in favour of Scottish Independence with appropriate contingency planning.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED INCOME STATEMENT

	Note	**Half-year to 30 June 2014 £ million**	Half-year to 30 June 2013 £ million
Interest and similar income		**9,827**	10,878
Interest and similar expense		**(4,750)**	(7,772)
Net interest income		**5,077**	3,106
Fee and commission income		**1,843**	2,194
Fee and commission expense		**(609)**	(740)
Net fee and commission income		**1,234**	1,454
Net trading income		**4,364**	11,598
Insurance premium income		**3,492**	3,851
Other operating income		**827**	2,473
Other income	3	**9,917**	19,376
Total income		**14,994**	22,482
Insurance claims		**(6,338)**	(11,687)
Total income, net of insurance claims		**8,656**	10,795
Regulatory provisions	18	**(1,100)**	(575)
Other operating expenses		**(5,097)**	(5,990)
Total operating expenses	4	**(6,197)**	(6,565)
Trading surplus		**2,459**	4,230
Impairment	5	**(641)**	(1,683)
Profit (loss) before tax		**1,818**	2,547
Taxation	6	**(384)**	(599)
Profit (loss) for the period		**1,434**	1,948
Profit attributable to non-controlling interests		**34**	18
Profit (loss) attributable to equity shareholders		**1,400**	1,930
Profit (loss) for the period		**1,434**	1,948

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 June 2014 £ million	Half-year to 30 June 2013 £ million
Profit for the period	**1,434**	1,948
Other comprehensive income:		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements (note 14):		
Remeasurements before taxation	**(599)**	981
Taxation	**120**	(226)
	(479)	755
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	**557**	(584)
Income statement transfers in respect of disposals	**(85)**	(711)
Income statement transfers in respect of impairment	**2**	2
Taxation	**(50)**	335
	424	(958)
Movement in cash flow hedging reserve:		
Effective portion of changes in fair value	**1,008**	113
Net income statement transfers	**(578)**	(417)
Taxation	**(84)**	73
	346	(231)
Currency translation differences (tax: nil)	**(1)**	25
Other comprehensive income for the period, net of tax	**290**	(409)
Total comprehensive income for the period	**1,724**	1,539
Total comprehensive income attributable to non-controlling interests	**34**	18
Total comprehensive income attributable to equity shareholders	**1,690**	1,521
Total comprehensive income for the period	**1,724**	1,539

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

CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2014 £ million	At 31 Dec 2013 £ million
Assets			
Cash and balances at central banks		**50,845**	49,915
Items in course of collection from banks		**1,664**	1,007
Trading and other financial assets at fair value through profit or loss	7	**147,748**	143,207
Derivative financial instruments		**26,771**	31,913
Loans and receivables:			
Loans and advances to banks		**21,589**	25,365
Loans and advances to customers	8	**491,345**	495,281
Debt securities		**1,266**	1,355
Due from fellow Lloyds Banking Group undertakings		**15,531**	15,453
		529,731	537,454
Available-for-sale financial assets		**50,348**	43,976
Held-to-maturity investments		**–**	–
Investment properties		**4,823**	4,864
Goodwill		**2,016**	2,016
Value of in-force business		**5,311**	5,335
Other intangible assets		**2,192**	2,279
Tangible fixed assets		**7,828**	7,570
Current tax recoverable		**33**	169
Deferred tax assets		**5,023**	5,132
Retirement benefit assets	14	**342**	98
Other assets	11	**24,851**	27,069
Total assets		**859,526**	862,004

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

CONSOLIDATED BALANCE SHEET (continued)

	Note	At 30 June 2014 £ million	At 31 Dec 2013 £ million
Equity and liabilities			
Liabilities			
Deposits from banks		**11,851**	13,982
Customer deposits		**445,091**	441,311
Due to fellow Lloyds Banking Group undertakings		**8,617**	8,797
Items in course of transmission to banks		**1,468**	774
Trading and other financial liabilities at fair value through profit or loss		**63,046**	43,625
Derivative financial instruments		**25,508**	30,704
Notes in circulation		**1,096**	1,176
Debt securities in issue	12	**77,220**	86,566
Liabilities arising from insurance contracts and participating investment contracts		**84,312**	82,801
Liabilities arising from non-participating investment contracts		**27,322**	27,590
Unallocated surplus within insurance businesses		**346**	391
Other liabilities	13	**30,115**	41,120
Retirement benefit obligations	14	**1,001**	1,096
Current tax liabilities		**231**	111
Deferred tax liabilities		**56**	3
Other provisions		**3,960**	4,337
Subordinated liabilities	15	**32,015**	33,534
Total liabilities		**813,255**	817,918
Equity			
Share capital	16	**1,574**	1,574
Share premium account	17	**35,533**	35,533
Other reserves	17	**4,892**	4,123
Retained profits	17	**3,324**	2,509
Shareholders' equity		**45,323**	43,739
Non-controlling interests		**948**	347
Total equity		**46,271**	44,086
Total equity and liabilities		**859,526**	862,004

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**	**Non-controlling interests £ million**	**Total £ million**
Balance at 1 January 2014	**37,107**	**4,123**	**2,509**	**43,739**	**347**	**44,086**
Comprehensive income						
Profit for the period	**–**	**–**	**1,400**	**1,400**	**34**	**1,434**
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	**–**	**424**	**–**	**424**	**–**	**424**
Movements in cash flow hedging reserve, net of tax	**–**	**346**	**–**	**346**	**–**	**346**
Currency translation differences (tax: nil)	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
Total other comprehensive income	**–**	**769**	**(479)**	**290**	**–**	**290**
Total comprehensive income	**–**	**769**	**921**	**1,690**	**34**	**1,724**
Transactions with owners						
Dividends	**–**	**–**	**–**	**–**	**(8)**	**(8)**
Capital contributions received	**–**	**–**	**153**	**153**	**–**	**153**
Return of capital contributions	**–**	**–**	**(124)**	**(124)**	**–**	**(124)**
Adjustment on sale of non-controlling interest in TSB (note 22)	**–**	**–**	**(135)**	**(135)**	**565**	**430**
Other changes in non-controlling interests	**–**	**–**	**–**	**–**	**10**	**10**
Total transactions with owners	**–**	**–**	**(106)**	**(106)**	**567**	**461**
Balance at 30 June 2014	**37,107**	**4,892**	**3,324**	**45,323**	**948**	**46,271**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders					
	Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Non-controlling interests £ million	Total £ million
Balance at 1 January 2013	37,107	6,573	2,618	46,298	685	46,983
Comprehensive income						
Profit for the period	–	–	1,930	1,930	18	1,948
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	755	755	–	755
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(958)	–	(958)	–	(958)
Movements in cash flow hedging reserve, net of tax	–	(231)	–	(231)	–	(231)
Currency translation differences (tax: nil)	–	25	–	25	–	25
Total other comprehensive income	–	(1,164)	755	(409)	–	(409)
Total comprehensive income	–	(1,164)	2,685	1,521	18	1,539
Transactions with owners						
Dividends	–	–	–	–	(25)	(25)
Value of employee services:						
Share option schemes	–	–	1	1	–	1
Change in non-controlling interests	–	–	–	–	(355)	(355)
Total transactions with owners	–	–	1	1	(380)	(379)
Balance at 30 June 2013	37,107	5,409	5,304	47,820	323	48,143
Comprehensive income						
(Loss) profit for the period	–	–	(2,332)	(2,332)	18	(2,314)
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(863)	(863)	–	(863)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(56)	–	(56)	–	(56)
Movements in cash flow hedging reserve, net of tax	–	(1,186)	–	(1,186)	–	(1,186)
Currency translation differences, net of tax	–	(44)	–	(44)	–	(44)
Total other comprehensive income	–	(1,286)	(863)	(2,149)	–	(2,149)
Total comprehensive income	–	(1,286)	(3,195)	(4,481)	18	(4,463)
Transactions with owners						
Dividends	–	–	–	–	–	–
Value of employee services:						
Share option schemes	–	–	400	400	–	400
Change in non-controlling interests	–	–	–	–	6	6
Total transactions with owners	–	–	400	400	6	406
Balance as at 31 December 2013	37,107	4,123	2,509	43,739	347	44,086

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

CONSOLIDATED CASH FLOW STATEMENT

	Half-year to 30 June 2014 £ million	Half-year to 30 June 2013 £ million
Profit before tax	**1,818**	2,547
Adjustments for:		
Change in operating assets	**1,954**	12,016
Change in operating liabilities	**3,144**	(22,726)
Non-cash and other items	**567**	(5,670)
Tax received	**10**	7
Net cash provided by (used in) operating activities	**7,493**	(13,826)
Cash flows from investing activities		
Purchase of financial assets	**(7,363)**	(25,776)
Proceeds from sale and maturity of financial assets	**1,685**	19,647
Purchase of fixed assets	**(1,651)**	(1,852)
Proceeds from sale of fixed assets	**725**	1,444
Acquisition of businesses, net of cash acquired	**(1)**	(2)
Disposal of businesses, net of cash disposed	**536**	(586)
Net cash used in investing activities	**(6,069)**	(7,125)
Cash flows from financing activities		
Dividends paid to non-controlling interests	**(8)**	(25)
Return of capital contribution	**(124)**	–
Interest paid on subordinated liabilities	**(1,311)**	(1,336)
Proceeds from issue of subordinated liabilities	**–**	1,500
Repayment of subordinated liabilities	**(1,182)**	(4,898)
Change in non-controlling interests	**10**	2
Sale of non-controlling interest in TSB	**430**	–
Net cash used in financing activities	**(2,185)**	(4,757)
Effects of exchange rate changes on cash and cash equivalents	**4**	(12)
Change in cash and cash equivalents	**(757)**	(25,720)
Cash and cash equivalents at beginning of period	**66,797**	101,058
Cash and cash equivalents at end of period	**66,040**	75,338

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

NOTES

1. Accounting policies, presentation and estimates

These condensed consolidated half-year financial statements as at and for the period to 30 June 2014 have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), *Interim Financial Reporting* as adopted by the European Union and comprise the results of Lloyds Bank plc (the Bank) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2013 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Copies of the 2013 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 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 6.

The accounting policies are consistent with those applied by the Group in its 2013 Annual Report and Accounts except as described below.

On 1 January 2014 the Group adopted the following amendments to standards and interpretations:

Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
The amendments to IAS 32 clarify the requirements for offsetting financial instruments and address inconsistencies identified in applying the offsetting criteria used in the standard.

IFRIC 21 Levies
This interpretation clarifies that the obligating event that gives rise to a liability to pay a government levy is the activity that triggers the payment of the levy as set out in the relevant legislation and that operating in a future period, irrespective of the difficulties involved in exiting a market, does not create a constructive obligation to pay a levy.

These changes have not had a significant impact on the Group.

Future accounting developments
Details of those IFRS pronouncements which will be relevant to the Group but which will not be effective at 31 December 2014 and which have not been applied in preparing these condensed consolidated half-year financial statements are set out in note 23.

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 2013.

2. Segmental analysis

The Group provides a wide range of banking and financial services in the UK and in certain locations overseas.

The Group Executive Committee (GEC) of the Lloyds Banking Group has been determined to be the chief operating decision maker for the Group. The Group's operating segments reflect its organisational and management structures. GEC reviews the Group's internal reporting based around these segments in order to assess performance and allocate resources. This assessment includes a consideration of each segment's net interest revenue and consequently the total interest income and expense for all reportable segments is presented on a net basis. The segments are differentiated by the type of products provided, by whether the customers are individuals or corporate entities and by the geographical location of the customer.

Following the transfer of HBOS to the Group on 1 January 2010, all of the trading activities of the Lloyds Banking Group are carried out within the Group and, as a result, the chief operating decision maker reviews the Group's performance by considering that of the Lloyds Banking Group. The segmental results and comparatives are presented on an underlying basis, the basis reviewed by the chief operating decision maker. The effects of asset sales, volatile items, liability management and the unwind of acquisition-related fair value adjustments are excluded in arriving at underlying profit.

Following a reorganisation, the Group's activities are now organised into six financial reporting segments: Retail; Commercial Banking; Consumer Finance; Insurance; TSB; and Run-off and Central items. The most significant changes to the segmental structure are:

- The Wealth business has been integrated into the Retail division;
- The Consumer Finance division now includes credit cards, asset finance and the European online deposits businesses; the Retail and Commercial Banking credit cards businesses have transferred into Consumer Finance;
- TSB now operates as a standalone listed entity following the IPO;
- Run-off manages the remaining portfolio of assets which are outside of the Group's risk appetite.

Comparative figures have been restated for all of these changes. The Group's underlying profit and statutory results are unchanged as a result of these restatements.

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 customers through investment in service, products and distribution.

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.

The Consumer Finance division comprises the Group's 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.

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.

TSB is a separately listed multi-channel retail banking business with branches in England, Wales and Scotland; it has a digital distribution platform and four telephony contact centres. It serves retail and small business customers; providing a full range of retail banking products.

2. Segmental analysis (continued)

Run-off includes certain assets previously classified as outside of the Group's risk appetite and the results and gains on sale relating to businesses disposed in 2013 and 2014. Central items include income and expenditure not recharged to divisions, including the costs of certain central and head office functions. Central items also includes the costs of managing the Group's technology platforms, branch and head office property estate, operations (including payments, banking operations and collections) and sourcing, the costs of which are predominantly recharged to the other divisions. It also reflects other items not recharged to the divisions.

Inter-segment services are generally recharged at cost, with the exception of the internal commission arrangements between the UK branch and other distribution networks and the insurance product manufacturing businesses within the Group, where a profit margin is also charged. Inter-segment lending and deposits are generally entered into at market rates, except that non-interest bearing balances are priced at a rate that reflects the external yield that could be earned on such funds.

For the majority of those derivative contracts entered into by business units for risk management purposes, the business unit recognises the net interest income or expense on an accrual accounting basis and transfers the remainder of the movement in the fair value of the derivative to the central group segment where the resulting accounting volatility is managed where possible through the establishment of hedge accounting relationships. Any change in fair value of the hedged instrument attributable to the hedged risk is also recorded within the central group segment. This allocation of the fair value of the derivative and change in fair value of the hedged instrument attributable to the hedged risk avoids accounting asymmetry in segmental results and leads to accounting volatility in the central group segment where it is managed.

2. Segmental analysis (continued)

Half-year to 30 June 2014	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims £m	Profit (loss) before tax £m	External revenue £m	Inter-segment revenue £m
Underlying basis						
Retail	**3,493**	**700**	**4,193**	**1,710**	**4,497**	**(304)**
Commercial Banking	**1,234**	**984**	**2,218**	**1,156**	**1,785**	**433**
Consumer Finance	**645**	**675**	**1,320**	**534**	**1,377**	**(57)**
Insurance	**(64)**	**854**	**790**	**461**	**859**	**(69)**
TSB	**400**	**72**	**472**	**226**	**451**	**21**
Run-off and Central items	**96**	**163**	**259**	**(268)**	**283**	**(24)**
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 costs	**–**	**–**	**–**	**(309)**		
Payment protection insurance provision	**–**	**–**	**–**	**(600)**		
Other regulatory provisions	**–**	**–**	**–**	**(500)**		
Past service credit[2]	**–**	**–**	**–**	**710**		
Amortisation of purchased intangibles	**–**	**–**	**–**	**(171)**		
Fair value unwind	**(313)**	**(71)**	**(384)**	**(315)**		
Removal of impact of other entities in the Lloyds Banking Group[3]	**(185)**	**1,145**	**960**	**955**		
Group – statutory	**5,077**	**3,579**	**8,656**	**1,818**		

[1] Includes (i) gains or losses on disposals of assets which are not part of normal business operations; (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; and (iii) the results of liability management exercises.

[2] This reflects the curtailment credit of £843 million following the Group's decision to reduce the cap on pensionable pay (see note 4) partly offset by the cost of other changes to the pay, benefits and reward offered to employees.

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

2. Segmental analysis (continued)

Half-year to 30 June 2013	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims £m	Profit (loss) before tax £m	External revenue £m	Inter-segment revenue £m
Underlying basis						
Retail	3,036	733	3,769	1,300	4,107	(338)
Commercial Banking	1,009	1,154	2,163	854	1,507	656
Consumer Finance	670	681	1,351	509	1,381	(30)
Insurance	(49)	945	896	559	1,187	(291)
TSB	305	88	393	60	431	(38)
Run-off and Central items	235	657	892	(380)	851	41
Group	5,206	4,258	9,464	2,902	9,464	–
Reconciling items:						
Insurance grossing adjustment	(1,700)	1,821	121	–		
Asset sales, volatile items and liability management[1]	12	558	570	376		
Volatility relating to the insurance business	7	478	485	485		
Simplification costs	–	–	–	(409)		
TSB costs	–	–	–	(377)		
Past service pensions cost	–	–	–	(104)		
Payment protection insurance provision	–	–	–	(500)		
Other regulatory provisions	–	–	–	(75)		
Amortisation of purchased intangibles	–	–	–	(200)		
Fair value unwind	(255)	–	(255)	36		
Removal of impact of other entities in the Lloyds Banking Group[2]	(164)	574	410	413		
Group – statutory	3,106	7,689	10,795	2,547		

[1] Includes (i) gains or losses on disposals of assets, including centrally held government bonds, which are not part of normal business operations; (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; and (iii) the results of liability management exercises.

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

2. **Segmental analysis** (continued)

Segment external assets	At 30 June 2014 £m	At 31 Dec 2013 £m
Retail	**317,593**	317,146
Commercial Banking	**238,099**	232,421
Consumer Finance	**24,360**	25,025
Insurance	**145,106**	155,378
TSB	**26,284**	24,084
Run-off and Central items	**92,498**	92,976
Total Group	**843,940**	847,030
Lloyds Bank Group statutory	**859,526**	862,004
Impact of other entities in the Lloyds Banking Group	**(15,586)**	(14,974)
Segment external assets as above	**843,940**	847,030
Segment customer deposits		
Retail	**284,273**	283,189
Commercial Banking	**117,168**	113,498
Consumer Finance	**17,423**	18,733
TSB	**23,700**	23,100
Run-off and Central items	**2,527**	2,791
Total Group and Lloyds Bank Group statutory	**445,091**	441,311
Segment external liabilities		
Retail	**297,999**	300,412
Commercial Banking	**225,145**	211,379
Consumer Finance	**21,096**	21,868
Insurance	**138,947**	149,445
TSB	**24,221**	23,289
Run-off and Central items	**90,674**	101,301
Total Group	**798,082**	807,694
Lloyds Bank Group statutory	**813,255**	817,918
Impact of other entities in the Lloyds Banking Group	**(15,173)**	(10,224)
Segment external liabilities as above	**798,082**	807,694

3. Other income

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m
Fee and commission income:		
Current account fees	**466**	485
Credit and debit card fees	**510**	475
Other fees and commissions	**867**	1,234
	1,843	2,194
Fee and commission expense	**(609)**	(740)
Net fee and commission income	**1,234**	1,454
Net trading income	**4,364**	11,598
Insurance premium income	**3,492**	3,851
Other operating income[1,2,3,4]	**827**	2,473
Total other income	**9,917**	19,376

[1] On 31 March 2014 the Group completed the sale of Scottish Widows Investment Partnership, realising a gain of £128 million.

[2] On 15 March 2013 the Group completed the sale of 102 million shares in St James's Place plc, reducing the Group's holding in that company to approximately 37 per cent. The Group realised a gain of £394 million on the sale of those shares and the fair valuation of the Group's residual stake. On 29 May 2013 the Group completed the sale of a further 77 million shares, generating a profit of £39 million and further reducing the Group's holding to approximately 21 per cent.

[3] On 30 June 2013, the Group disposed of its Spanish retail banking operations, including Lloyds Bank International S.A.U and Lloyds Investment España SGIIC S.A.U, to Banco Sabadell, S.A. realising a loss of £256 million.

[4] On 31 May 2013, the Group sold a portfolio of US RMBS (residential mortgage-backed securities) for a cash consideration of £3.3 billion, realising a profit of £538 million.

4. Operating expenses

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m
Administrative expenses:		
Staff costs excluding pension curtailments and past service credits	**2,879**	2,904
Past service costs (credits)[1]	**(822)**	104
Total staff costs	**2,057**	3,008
Premises and equipment	**444**	490
Other expenses	**1,647**	1,523
	4,148	5,021
Depreciation and amortisation	**949**	969
Total operating expenses, excluding regulatory provisions	**5,097**	5,990
Regulatory provisions:		
Payment protection insurance provision (note 18)	**600**	500
Other regulatory provisions (note 18)	**500**	75
	1,100	575
Total operating expenses	**6,197**	6,565

[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. This has been partly offset by a charge of £21 million following a change to pension arrangements for staff within the TSB business.

In 2013, the Group agreed certain changes to early retirement and commutation factors in two of its principal defined benefit pension schemes, resulting in a curtailment cost of £104 million recognised in the Group's income statement in the half-year to 30 June 2013.

5. Impairment

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m
Impairment losses on loans and receivables:		
Loans and advances to customers	639	1,680
Debt securities classified as loans and receivables	–	1
Impairment losses on loans and receivables (note 9)	639	1,681
Impairment of available-for-sale financial assets	2	2
Total impairment charged to the income statement	641	1,683

6. Taxation

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

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m
Profit (loss) before tax	1,818	2,547
Tax (charge) credit thereon at UK corporation tax rate of 21.5 per cent (2013: 23.25 per cent)	(391)	(592)
Factors affecting tax (charge) credit:		
UK corporation tax rate change	–	–
Disallowed items	(108)	(148)
Non-taxable items	43	104
Overseas tax rate differences	(17)	19
Gains exempted or covered by capital losses	147	82
Policyholder tax	(23)	(216)
Deferred tax on losses not previously recognised	–	43
Adjustments in respect of previous periods	(22)	108
Effect of results in joint ventures and associates	(3)	2
Other items	(10)	(1)
Tax charge	(384)	(599)

In accordance with IAS 34, the Group’s income tax expense for the half-year to 30 June 2014 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.

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

	At 30 June 2014 £m	At 31 Dec 2013 £m
Trading assets	**42,126**	37,480
Other financial assets at fair value through profit or loss:		
Treasury and other bills	**53**	54
Loans and advances to customers	**20**	27
Debt securities	**39,227**	38,879
Equity shares	**66,322**	66,767
	105,622	105,727
Total trading and other financial assets at fair value through profit or loss	**147,748**	143,207

Included in the above is £100,864 million (31 December 2013: £101,211 million) of assets relating to the insurance businesses.

8. Loans and advances to customers

	At 30 June 2014 £m	At 31 Dec 2013 £m
Agriculture, forestry and fishing	**6,303**	6,051
Energy and water supply	**3,982**	4,414
Manufacturing	**6,880**	7,650
Construction	**7,350**	7,024
Transport, distribution and hotels	**20,524**	22,294
Postal and communications	**1,915**	2,364
Property companies	**40,399**	44,277
Financial, business and other services	**47,032**	44,807
Personal:		
Mortgages	**335,032**	335,611
Other	**22,456**	23,230
Lease financing	**3,814**	4,435
Hire purchase	**6,074**	5,090
	501,761	507,247
Allowance for impairment losses on loans and advances (note 9)	**(10,416)**	(11,966)
Total loans and advances to customers	**491,345**	495,281

Loans and advances to customers include advances securitised under the Group's securitisation and covered bond programmes. Further details are given in note 10.

9. Allowance for impairment losses on loans and receivables

	Half-year to 30 June 2014 £m	Year ended 31 Dec 2013 £m
At 1 January	**12,091**	15,459
Exchange and other adjustments	**(320)**	291
Adjustment on disposal of business	**–**	(176)
Advances written off	**(2,047)**	(6,314)
Recoveries of advances written off in previous years	**283**	456
Unwinding of discount	**(106)**	(351)
Charge for the half-year to 30 June (note 5)	**639**	1,681
Charge for the half-year to 31 December	**–**	1,045
Charge to the income statement	**639**	2,726
At end of period	**10,540**	12,091
In respect of:		
Loans and advances to customers (note 8)	**10,416**	11,966
Debt securities	**124**	125
At end of period	**10,540**	12,091

10. Securitisations and covered bonds

The Group's principal securitisation and covered bond programmes, together with the balances of the loans subject to these arrangements and the carrying value of the notes in issue, are listed in the table below.

	30 June 2014		31 December 2013	
Securitisation programmes[1]	**Loans and advances securitised £m**	**Notes in issue £m**	Loans and advances securitised £m	Notes in issue £m
UK residential mortgages	**54,431**	**34,236**	55,998	36,286
Commercial loans	**9,908**	**9,960**	10,931	11,259
Credit card receivables	**6,329**	**4,174**	6,314	3,992
Dutch residential mortgages	**4,102**	**4,232**	4,381	4,508
Personal loans	**1,820**	**751**	2,729	750
PPP/PFI and project finance loans	**471**	**103**	525	106
	77,061	**53,456**	80,878	56,901
Less held by the Group		**(38,886)**		(38,288)
Total securitisation programmes (note 12)		**14,570**		18,613
Covered bond programmes				
Residential mortgage-backed	**51,805**	**34,641**	59,576	36,473
Social housing loan-backed	**2,439**	**1,800**	2,536	1,800
	54,244	**36,441**	62,112	38,273
Less held by the Group		**(7,024)**		(7,606)
Total covered bond programmes (note 12)		**29,417**		30,667
Total securitisation and covered bond programmes		**43,987**		49,280

[1] Includes securitisations utilising a combination of external funding and credit default swaps.

10. Securitisations and covered bonds (continued)

Securitisation programmes

Loans and advances to customers and debt securities classified as loans and receivables include loans securitised under the Group's securitisation programmes, the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. As the structured entities are funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by the subsidiary, the structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue (note 12).

Covered bond programmes

Certain loans and advances to customers have been assigned to bankruptcy remote limited liability partnerships to provide security to issues of covered bonds by the Group. The Group retains all of the risks and rewards associated with these loans and the partnerships are consolidated fully with the loans retained on the Group's balance sheet and the related covered bonds in issue included within debt securities in issue (note 12).

Cash deposits of £10,927 million (31 December 2013: £13,500 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.

Asset-backed conduits

In addition to the structured entities detailed above, the Group sponsors three asset-backed conduits: Argento, Cancara and Grampian, which invest in debt securities and client receivables (note 8).

11. Other assets

	At 30 June 2014 £m	At 31 Dec 2013 £m
Assets arising from reinsurance contracts held	**655**	732
Deferred acquisition and origination costs	**121**	130
Settlement balances	**6,339**	2,904
Corporate pension asset	**11,414**	9,984
Investments in joint ventures and associates	**72**	101
Assets of disposal groups	**–**	7,988
Other assets and prepayments	**6,250**	5,230
Total other assets	**24,851**	27,069

12. Debt securities in issue

	At 30 June 2014 £m	At 31 Dec 2013 £m
Medium-term notes issued	**20,460**	23,385
Covered bonds (note 10)	**29,417**	30,667
Certificates of deposit	**6,810**	8,866
Securitisation notes (note 10)	**14,570**	18,613
Commercial paper	**5,963**	5,035
Total debt securities in issue	**77,220**	86,566

13. Other liabilities

	At 30 June 2014 £m	At 31 Dec 2013 £m
Settlement balances	**3,535**	3,358
Unitholders' interest in Open Ended Investment Companies	**17,311**	22,219
Liabilities of disposal groups	**–**	7,302
Other creditors and accruals	**9,269**	8,241
Total other liabilities	**30,115**	41,120

14. Post-retirement defined benefit schemes

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

	At 30 June 2014 £m	At 31 Dec 2013 £m
Defined benefit pension schemes:		
- Fair value of scheme assets	**33,864**	32,568
- Present value of funded obligations	**(34,306)**	(33,355)
Net pension scheme liability	**(442)**	(787)
Other post-retirement schemes	**(217)**	(211)
Net retirement benefit liability	**(659)**	(998)
Recognised on the balance sheet as:		
Retirement benefit assets	**342**	98
Retirement benefit obligations	**(1,001)**	(1,096)
Net retirement benefit liability	**(659)**	(998)

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

	£m
At 1 January 2014	**(998)**
Exchange and other adjustments	**–**
Income statement charge:	
Regular cost	**(181)**
Curtailments (see below)	**822**
	641
Employer contributions	**297**
Remeasurement	**(599)**
At 30 June 2014	**(659)**

Included within curtailments is a credit of £843 million following the Group's decision to reduce the cap on pensionable pay (see note 4); this is partly offset by a charge of £21 million following changes to pension arrangements for staff within the TSB business.

14. Post-retirement defined benefit schemes (continued)

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

	At 30 June 2014 %	At 31 Dec 2013 %
Discount rate	**4.32**	4.60
Rate of inflation:		
Retail Prices Index	**3.23**	3.30
Consumer Price Index	**2.23**	2.30
Rate of salary increases	**0.00**	2.00
Weighted-average rate of increase for pensions in payment	**2.74**	2.80

The application of the revised assumptions as at 30 June 2014 to the Group's principal post-retirement defined benefit schemes has resulted in a remeasurement loss of £599 million which has been recognised in other comprehensive income, net of deferred tax of £120 million.

15. Subordinated liabilities

The Group's subordinated liabilities are comprised as follows:

	At 30 June 2014 £m	At 31 Dec 2013 £m
Preferred securities	**5,995**	6,687
Undated subordinated liabilities	**2,412**	2,552
Dated subordinated liabilities	**23,608**	24,295
Total subordinated liabilities	**32,015**	33,534

The movement in subordinated liabilities during the period was as follows:

	Half-year to 30 June 2014 £m	Year ended 31 Dec 2013 £m
Opening balance	**33,534**	37,590
New issues during the period	**–**	1,500
Repurchases and redemptions during the period	**(1,182)**	(5,048)
Foreign exchange and other movements	**(337)**	(508)
At end of period	**32,015**	33,534

16. Share capital

Ordinary share capital in issue was as follows:

	Number of shares (million)	**£m**
Ordinary shares of £1 each		
At 1 January and 30 June 2014	**1,574**	**1,574**

17. Reserves

		Other reserves				
	Share premium £m	Available-for-sale £m	Cash flow hedging £m	Merger and other £m	Total £m	Retained profits £m
At 1 January 2014	35,533	(1,273)	(827)	6,223	4,123	2,509
Profit for the period	–	–	–	–	–	1,400
Post-retirement defined benefit scheme remeasurements (net of tax)	–	–	–	–	–	(479)
Capital contribution received	–	–	–	–	–	153
Return of capital contribution	–	–	–	–	–	(124)
Adjustment on disposal of non-controlling interest in TSB	–	–	–	–	–	(135)
Change in fair value of available-for-sale assets (net of tax)	–	496	–	–	496	–
Change in fair value of hedging derivatives (net of tax)	–	–	886	–	886	–
Transfers to income statement (net of tax)	–	(72)	(540)	–	(612)	–
Exchange and other	–	–	–	(1)	(1)	–
At 30 June 2014	**35,533**	**(849)**	**(481)**	**6,222**	**4,892**	**3,324**

18. Provisions for liabilities and charges

Payment protection insurance

Following the unsuccessful legal challenge by the BBA against the Financial Services Authority (FSA) and the Financial Ombudsman Service (FOS), the Group made provisions totalling £9,825 million between 2011 and 2013 against the costs of paying redress to customers in respect of past sales of PPI policies, including the related administrative expenses.

During 2014 quarterly customer initiated complaints have continued to fall, albeit slightly slower than expected. Significant progress has also been made in the planned proactive mailings. There have been some adverse trends (as detailed below), and a further £600 million has been added to the provision. This brings the total amount provided to £10,425 million, of which approximately £2,280 million relates to anticipated administrative expenses.

As at 30 June 2014, £2,268 million of the provision remained unutilised (22 per cent of total provision) relative to an average monthly spend including administration costs in the last six months of £190 million. The main drivers of the provision are as follows:

- **Volumes of customer initiated complaints (after excluding complaints from customers where no PPI policy was held)** – at 31 December 2013, the provision assumed a total of 3.0 million complaints would be received. In the first six months of 2014, complaint volumes were approximately 30 per cent lower than the same period last year, but higher than expected. As a result the Group is forecasting a slower decline in future volumes than previously expected. This has resulted in a further provision of approximately £290 million. At 30 June 2014, approximately 2.8 million complaints have been received, with the provision assuming approximately 410,000 in the future compared to an average run-rate of approximately 41,000 per month in the last six months, and 39,000 per month in quarter two.

18. Provisions for liabilities and charges (continued)

Average monthly complaint volumes – reactive

Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
109,893	130,752	110,807	84,751	61,259	54,086	49,555	37,457	42,259	39,426

- **Proactive mailing resulting from Past Business Reviews (PBR)** – the Group is proactively mailing customers where it has been identified that there was a risk of potential mis-sale. At 30 June 2014 over 95 per cent of all PBR customers have been mailed, with some second mailings and case review continuing into the second half of the year. While the response rates of most cohorts are in line with expectations, additional mailings to certain asset finance customers have resulted in a higher response rate. In addition, the PBR mailings are leading to a higher number of policies per customer being reviewed than originally expected. This has resulted in a further provision of approximately £160 million.

- **Uphold rates** per policy of 80 per cent are as expected in the first half of 2014. The uphold rate for customer initiated complaints in the first half of 2014 was 75 per cent, in line with expectations.

- **Average redress** per policy has been marginally lower than expected in the first half of 2014 resulting in a benefit to the provision of approximately £40 million.

- **Re-review of previously handled cases** – previously reviewed complaints are being assessed to ensure consistency with the current complaint handling policy. Approximately 590,000 cases are expected to be re-reviewed, consistent with the provision assumptions at December 2013, with this exercise due to commence in the second half of 2014 and running into the first half of 2015.

- **Expenses** – the Group expects to maintain the operation on its current scale for longer than previously expected given the update to volume related assumptions and the re-review of previously handled cases continuing in to 2015. The estimate for administrative expenses, which comprise complaint handling costs and costs arising from cases subsequently referred to the FOS, has increased by approximately £190 million.

An Enforcement Team of the FCA is investigating the Group's governance of third party suppliers and potential failings in the PPI complaint handling process. A provision of £50 million is held to cover the likely administration costs of responding to the FCA's inquiries. It is not possible at this stage to make any assessment of what, if any, additional liability may result from the investigation.

Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for approximately 40 per cent of the policies sold since 2000, covering both customer-initiated complaints and actual and expected proactive mailings undertaken by the Group. The total amount provided for PPI represents the Group's best estimate of the likely future costs, albeit a number of risks and uncertainties remain, in particular complaint volumes, uphold rates, average redress paid, the scope and cost of proactive mailings and remediation, and the outcome of the FCA Enforcement Team investigation. The cost of these factors could differ materially from the Group's estimates and the assumptions underpinning them and could result in a further provision being required.

18. Provisions for liabilities and charges (continued)

Key metrics and sensitivities are highlighted in the table below:

Sensitivities[1]	To date unless noted	Future	Sensitivity
Customer initiated complaints since origination (m)[2]	2.8	0.4	0.1 = £200m
Proactive mailing: – number of policies (m)[3]	2.7	0.1	0.1 = £45m
– response rate[4]	35%	31%	1% = £15m
Average uphold rate per policy[5]	80%	82%	1% = £15m
Average redress per upheld policy[6]	£1,600	£1,550	£100 = £100m
Remediation cases (k)	26	564	1 case = £770
Administrative expenses (£m)	1,710	570	1 case = £500
FOS referral rate[7]	36%	36%	1% = £3m
FOS overturn rate[8]	57%	33%	1% = £2m

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

2 Sensitivity includes complaint handling costs.

3 To date volume includes customer initiated complaints.

4 Metric has been adjusted to include mature mailings only, and exclude expected customer initiated complaints. 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 80 per cent uphold rate is based on the latest six months to June 2014.

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 six months to June 2014. The reduction in future average redress is due to the mix shifting away from more expensive cases.

7 The percentage of cases reviewed by the Group that are subsequently referred to the FOS by the customer. A complaint is considered mature when six months have elapsed since initial decision. Actuals are based on decisions made by the Group during July to December 2013 and subsequently referred to the FOS.

8 The percentage of complaints referred where the FOS arrive at a different decision to the Group. Actual to date is based on cases overturned in the six months to June 2014. The overturn rate to date is high as it continues to include a significant number of cases assessed prior to the implementation of changes to the case review process during 2013.

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 (FCJ) in Germany the Group recognised a further provision of £150 million in its accounts for the year ended 31 December 2012 bringing the total amount provided to £325 million. During the year ended 31 December 2013 the Group charged a further £75 million with respect to this litigation increasing the total provision to £400 million; no additional charge has been made in the first half of 2014. The remaining unutilised provision as at 30 June 2014 is £175 million.

However, there are still a number of uncertainties as to the full impact of the FCJ's decisions, and the validity of any of the claims facing CMIG will turn 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 there is further clarity with respect to a range of legal issues and factual determinations involved in these claims and/or all relevant claims have been resolved.

18. Provisions for liabilities and charges (continued)

LIBOR and other trading rates

On 28 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.

On LIBOR, the Group has reached settlements with the Financial Conduct Authority (FCA) in the United Kingdom, the United States Commodity Futures Trading Commission (CFTC) and the United States Department of Justice (DoJ) in relation to investigations into submissions between May 2006 and 2009 and related systems and controls failings.

The settlements in relation to LIBOR are part of an industry-wide investigation into the setting of interbank offered rates across a range of currencies. Under the settlement, the Group has agreed to pay £35 million, £62 million and £50 million to the FCA, CFTC and DoJ respectively. As part of the settlement with the DoJ, the Group has also entered into a two-year Deferred Prosecution Agreement in relation to one count of wire fraud relating to the setting of LIBOR.

In relation to the BBA Sterling Repo Rate, the Group has reached a settlement with the FCA regarding submissions made between April 2008 and September 2009. This issue involved four individuals who the FCA has concluded manipulated BBA Repo Rate submissions to reduce fees payable under the Special Liquidity Scheme (SLS). The issue was proactively brought to the FCA's attention when it was identified by the Group as part of its internal investigation into the LIBOR issues.

The Group has agreed to pay £70 million to the FCA in connection with the resolution of the BBA Repo Rate issue and related systems and controls failings. Both the CFTC and DoJ settlements are in respect of LIBOR only and neither agency has taken action regarding the BBA Repo Rate.

The BBA Repo Rate was used by the Bank of England (BoE) to calculate the fees for the SLS. During the period that Lloyds TSB and HBOS used the SLS they paid £1,278 million in fees, just under half of all the fees payable by the industry under the Scheme. As a result of the actions of the four individuals involved, the Group has paid nearly £8 million to compensate the BoE for amounts underpaid (by Lloyds TSB and HBOS and the other banks that used the SLS).

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. The Group continues to review those cases within the scope of the agreement with the FCA.

During the first half of 2014, the Group has charged a further £50 million in respect of estimated redress costs, increasing the total amount provided for redress and related administration costs to £580 million (31 December 2013: £530 million). As at 30 June 2014, the Group has utilised £419 million (31 December 2013: £162 million), with £161 million (31 December 2013: £368 million) of the provision remaining. No provision has been recognised in relation to claims from customers which are not covered by the agreement with the FCA, or incremental claims from customers within the scope of the review. These will be monitored and future provisions will be recognised to the extent that an obligation resulting in a probable outflow is identified.

19. Contingent liabilities and commitments

Other 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 governmental authorities in relation to a range of matters; a provision is held against the costs expected to be incurred as a result of the conclusions reached. In the first half of 2014 the provision was increased by a further £225 million, in respect of a limited number of matters affecting the Group's Retail business, including potential remediation in relation to legacy sales of investment and protection products and historic systems and controls governing legacy incentive schemes. This brings the total amount charged to £525 million of which £117 million had been utilised at 30 June 2014. This increase reflected the Group's assessment of a limited number of matters under discussion, none of which currently is individually considered financially material in the context of the Group.

Interchange fees

On 24 May 2012, the General Court of the European Union (the General Court) upheld the European Commission's 2007 decision that an infringement of EU competition law had arisen from arrangements whereby MasterCard issuers charged a uniform fallback multilateral interchange fee (MIF) in respect of cross border transactions in relation to the use of a MasterCard or Maestro branded payment card.

MasterCard has appealed the General Court's judgment to the Court of Justice of the European Union. MasterCard is supported by several card issuers, including Lloyds Banking Group. Judgment is not expected until September 2014.

In parallel:

– the European Commission has proposed legislation to regulate interchange fees, which continues through the EU legislative process. The legislation is expected to be adopted in the first quarter of 2015, and is expected to come in to force in 2016;
– the European Commission has adopted commitments proposed by VISA to settle an investigation into whether arrangements adopted by VISA for the levying of the MIF in respect of cross-border credit card payment transactions also infringe European Union competition laws. VISA has agreed inter alia to reduce the level of interchange fees on cross-border credit card transactions to the interim level (30 basis points). VISA has previously reached an agreement (which expires in 2014) with the European Commission to reduce the level of interchange fees for cross-border debit card transactions to the interim levels agreed by MasterCard;
– the new UK payments regulator may exercise its powers, when these come in to force (in April 2015), to regulate domestic interchange fees. The Competition and Markets Authority may also seek to restart an investigation of domestic MIFs. In addition, the FCA has announced that it will carry out a market study in relation to the UK credit cards market in the third quarter of 2014.

The ultimate impact of the investigations and any regulatory or legislative developments on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings and once regulatory or legislative proposals are more certain.

LIBOR and other trading rates

As set out in more detail in note 18, on 28 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 settlements in relation to LIBOR are part of an industry-wide investigation into the setting of interbank offered rates across a range of currencies.

The Group continues to cooperate with various other government and regulatory authorities, including the Serious Fraud Office, the European and Swiss Competition Commissions, 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.

19. 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 and Japanese Yen LIBOR. The claims have been asserted by plaintiffs claiming to have had an interest in various types of financial instruments linked to US Dollar and Japanese Yen LIBOR. The allegations in these cases, the majority of which have been coordinated for pre-trial purposes in two sets of multi-district litigation proceedings (MDL) in the US District Court for the Southern District of New York (the 'District Court'), are substantially similar to each other. The lawsuits 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 have been dismissed by the District Court, and many of these cases have been stayed by order of the District Court.

The Group is also reviewing its activities in relation to the setting of certain foreign exchange daily benchmark rates and related matters, following the FCA's publicised initiation of an investigation into other financial institutions in relation to this activity. The Group is co-operating with the FCA and other regulators and is 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.

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. 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.

Investigation into Bank of Scotland and report on HBOS

The FSA's enforcement investigation into Bank of Scotland plc's Corporate division between 2006 and 2008 concluded with the publication of a Final Notice on 9 March 2012. No financial penalty was imposed on the Group or Bank of Scotland plc. On 12 September 2012 the FSA confirmed it was starting work on a public interest report on HBOS. That report is currently expected to be published in 2014.

19. Contingent liabilities and commitments (continued)

US-Swiss tax programme

The US Department of Justice (the DoJ) and the Swiss Federal Department of Finance announced on 29 August 2013 a programme (the Programme) for Swiss banks to obtain resolution concerning their status in connection with on-going investigations by the DoJ into individuals and entities that use foreign (i.e. non-U.S.) bank accounts to evade U.S. taxes and reporting requirements, and individuals and entities that facilitate or have facilitated the evasion of such taxes and reporting requirements. Swiss banks that choose to participate notified the DoJ of their election to categorise their relevant banking operations according to one of a number of defined categories under the Programme.

The Group, which carried out private banking operations in Switzerland prior to disposing of these operations in November 2013, has notified the DoJ of its elected categorisation on the basis that while it believes it has operated in full compliance with all US federal tax laws, there remains the possibility that certain of its clients may not have declared their assets in compliance with such laws. The Group is completing due diligence under the terms of the Programme. However, at this time, it is not possible to predict the ultimate outcome of the Group’s participation in the Programme, including the timing and scale of any fine finally payable to the DoJ.

Tax authorities

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

Other legal actions and regulatory matters

In addition, during the ordinary course of business the Lloyds Banking Group is subject to other threatened and actual legal proceedings (including class or group action claims brought on behalf of customers, shareholders or other third parties), and regulatory 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 Lloyds Banking 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 to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed properly to assess the merits of the case and no provisions are held against such matters. However the Lloyds Banking 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.

19. Contingent liabilities and commitments (continued)

Contingent liabilities and commitments arising from the banking business

	At 30 June 2014 £m	At 31 Dec 2013 £m
Contingent liabilities		
Acceptances and endorsements	**48**	204
Other:		
Other items serving as direct credit substitutes	**308**	710
Performance bonds and other transaction-related contingencies	**2,276**	1,966
	2,584	2,676
Total contingent liabilities	**2,632**	2,880
Commitments		
Documentary credits and other short-term trade-related transactions	**85**	54
Forward asset purchases and forward deposits placed	**454**	440
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	**10,844**	9,559
Other commitments	**57,502**	55,002
	68,346	64,561
1 year or over original maturity	**40,626**	40,616
Total commitments	**109,511**	105,671

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £52,393 million (31 December 2013: £56,292 million) was irrevocable.

20. 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.

Level 1 portfolios
Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise equity shares, treasury bills and other government securities.

Level 2 portfolios
Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Examples of such financial instruments include most over-the-counter derivatives, financial institution issued securities, certificates of deposit and certain asset-backed securities.

Level 3 portfolios
Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include the Group's venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows. Certain of the Group's asset-backed securities and derivatives, principally where there is no trading activity in such securities, are also classified as level 3.

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 2013 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied to such portfolios.

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

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 2014		31 December 2013	
	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	**147,748**	**147,748**	143,207	143,207
Derivative financial instruments	**26,771**	**26,771**	31,913	31,913
Loans and receivables:				
Loans and advances to banks	**21,589**	**21,647**	25,365	25,296
Loans and advances to customers	**491,345**	**485,189**	495,281	486,495
Debt securities	**1,266**	**1,140**	1,355	1,251
Due from fellow Lloyds Banking Group undertakings	**15,531**	**15,531**	15,453	15,453
Available-for-sale financial instruments	**50,348**	**50,348**	43,976	43,976
Financial liabilities				
Deposits from banks	**11,851**	**11,901**	13,982	14,101
Customer deposits	**445,091**	**445,702**	441,311	441,855
Due to fellow Lloyds Banking Group undertakings	**8,617**	**8,617**	8,797	8,797
Trading and other financial liabilities at fair value through profit or loss	**63,046**	**63,046**	43,625	43,625
Derivative financial instruments	**25,508**	**25,508**	30,704	30,704
Debt securities in issue	**77,220**	**81,601**	86,566	90,268
Liabilities arising from non-participating investment contracts	**27,322**	**27,322**	27,590	27,590
Financial guarantees	**48**	**48**	50	50
Subordinated liabilities	**32,015**	**31,041**	33,534	33,976

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

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

The following table provides 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.

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

Valuation hierarchy

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2014				
Trading and other financial assets at fair value through profit or loss:				
Loans and advances to customers	–	27,250	–	27,250
Loans and advances to banks	–	6,996	–	6,996
Debt securities:				
Government securities	20,013	712	–	20,725
Other public sector securities	–	895	1,077	1,972
Bank and building society certificates of deposit	–	2,339	–	2,339
Asset-backed securities:				
Mortgage-backed securities	25	789	52	866
Other asset-backed securities	–	833	–	833
Corporate and other debt securities	461	17,664	1,988	20,113
	20,499	23,232	3,117	46,848
Equity shares	64,643	7	1,788	66,438
Treasury and other bills	216	–	–	216
Total trading and other financial assets at fair value through profit or loss	85,358	57,485	4,905	147,748
Available-for-sale financial assets:				
Debt securities:				
Government securities	42,263	30	–	42,293
Bank and building society certificates of deposit	–	264	–	264
Asset-backed securities:				
Mortgage-backed securities	–	1,168	–	1,168
Other asset-backed securities	–	792	–	792
Corporate and other debt securities	729	3,087	–	3,816
	42,992	5,341	–	48,333
Equity shares	50	772	329	1,151
Treasury and other bills	852	12	–	864
Total available-for-sale financial assets	43,894	6,125	329	50,348
Derivative financial instruments	46	25,002	1,723	26,771
Total financial assets carried at fair value	129,298	88,612	6,957	224,867
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	5,562	12	5,574
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	51,699	–	51,699
Short positions in securities	3,255	258	–	3,513
Other	–	2,260	–	2,260
	3,255	54,217	–	57,472
Total trading and other financial liabilities at fair value through profit or loss	3,255	59,779	12	63,046
Derivative financial instruments	19	24,473	1,016	25,508
Financial guarantees	–	–	48	48
Total financial liabilities carried at fair value	3,274	84,252	1,076	88,602

There were no transfers between level 1 and level 2 during the period.

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

Valuation hierarchy

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2013				
Trading and other financial assets at fair value through profit or loss:				
Loans and advances to customers	–	21,110	–	21,110
Loans and advances to banks	–	8,333	–	8,333
Debt securities:				
Government securities	20,191	498	–	20,689
Other public sector securities	–	1,312	885	2,197
Bank and building society certificates of deposit	–	1,491	–	1,491
Asset-backed securities:				
Mortgage-backed securities	30	768	–	798
Other asset-backed securities	171	756	–	927
Corporate and other debt securities	244	18,735	1,687	20,666
	20,636	23,560	2,572	46,768
Equity shares	65,211	10	1,660	66,881
Treasury and other bills	7	108	–	115
Total trading and other financial assets at fair value through profit or loss	85,854	53,121	4,232	143,207
Available-for-sale financial assets:				
Debt securities:				
Government securities	38,262	28	–	38,290
Bank and building society certificates of deposit	–	208	–	208
Asset-backed securities:				
Mortgage-backed securities	–	1,263	–	1,263
Other asset-backed securities	–	841	74	915
Corporate and other debt securities	56	1,799	–	1,855
	38,318	4,139	74	42,531
Equity shares	48	147	375	570
Treasury and other bills	852	23	–	875
Total available-for-sale financial assets	39,218	4,309	449	43,976
Derivative financial instruments	235	29,871	1,807	31,913
Total financial assets carried at fair value	125,307	87,301	6,488	219,096
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	5,267	39	5,306
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	28,902	–	28,902
Short positions in securities	6,473	417	–	6,890
Other	–	2,527	–	2,527
	6,473	31,846	–	38,319
Total trading and other financial liabilities at fair value through profit or loss	6,473	37,113	39	43,625
Derivative financial instruments	119	29,599	986	30,704
Financial guarantees	–	–	50	50
Total financial liabilities carried at fair value	6,592	66,712	1,075	74,379

20. 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 £m	**Available-for-sale financial assets £m**	**Derivative assets £m**	**Total financial assets carried at fair value £m**
At 1 January 2014	**4,232**	**449**	**1,807**	**6,488**
Exchange and other adjustments	**–**	**(9)**	**(9)**	**(18)**
Gains (losses) recognised in the income statement within other income	**167**	**(78)**	**50**	**139**
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	**–**	**15**	**–**	**15**
Purchases	**432**	**199**	**10**	**641**
Sales	**(367)**	**(173)**	**(104)**	**(644)**
Transfers into the level 3 portfolio	**441**	**–**	**22**	**463**
Transfers out of the level 3 portfolio	**–**	**(74)**	**(53)**	**(127)**
At 30 June 2014	**4,905**	**329**	**1,723**	**6,957**
(Losses) gains recognised in the income statement within other income relating to those assets held at 30 June 2014	**140**	**–**	**50**	**190**

	Trading and other financial assets at fair value through profit or loss £m	Available-for-sale financial assets £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2013	3,306	567	937	4,810
Exchange and other adjustments	4	21	2	27
Gains (losses) recognised in the income statement within other income	173	(1)	205	377
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	34	–	34
Purchases	301	27	200	528
Sales	(159)	(207)	(9)	(375)
Transfers into the level 3 portfolio	265	1	415	681
Transfers out of the level 3 portfolio	–	–	(49)	(49)
At 30 June 2013	3,890	442	1,701	6,033
Gains recognised in the income statement within other income relating to those assets held at 30 June 2013	152	–	202	354

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

Movements in level 3 portfolio

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

	Trading and other financial liabilities at fair value through profit or loss £m	**Derivative liabilities £m**	**Financial guarantees £m**	**Total financial liabilities carried at fair value £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)**

	Derivative liabilities £m	Financial guarantees £m	Total financial liabilities carried at fair value £m
At 1 January 2013	543	48	591
Exchange and other adjustments	3	–	3
(Gains) losses recognised in the income statement within other income	(44)	2	(42)
Additions	203	–	203
Redemptions	(25)	(1)	(26)
Transfers into the level 3 portfolio	248	–	248
Transfers out of the level 3 portfolio	(1)	–	(1)
At 30 June 2013	927	49	976
Gains (losses) recognised in the income statement within other income relating to those liabilities held at 30 June 2013	43	(2)	41

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

				At 30 June 2014		
					Effect of reasonably possible alternative assumptions[2]	
	Valuation technique(s)	Significant unobservable inputs	Range[1]	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss						
Debt securities	Discounted cash flow	Credit spreads (bps)	n/a[3]	**20**	**5**	**(5)**
Asset-backed securities	Lead manager or broker quote	n/a	n/a	**68**	**–**	**(2)**
Equity and venture capital investments	Market approach	Earnings multiple	3.8/14.3	**2,280**	**50**	**(52)**
	Underlying asset/net asset value (incl. property prices)[4]	n/a	n/a	**188**	**36**	**(18)**
Unlisted equities and property partnerships in the life funds	Underlying asset/net asset value (incl. property prices)[4]	n/a	n/a	**2,349**	**–**	**–**
				4,905		
Available-for-sale financial assets						
Equity and venture capital investments	Underlying asset/net asset value (incl. property prices)[4]	n/a	n/a	**329**	**21**	**(16)**
				329		
Derivative financial assets						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	2/189	**1,335**	**27**	**(15)**
	Option pricing model	Interest rate volatility	3%/120%	**388**	**9**	**(7)**
				1,723		
Financial assets carried at fair value				**6,957**		
Trading and other financial liabilities at fair value through profit or loss				**12**		
Derivative financial liabilities						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	2/189	**752**	**–**	**–**
	Option pricing model	Interest rate volatility	3%/120%	**264**	**–**	**–**
				1,016		
Financial guarantees				**48**		
Financial liabilities carried at fair value				**1,076**		

[1] The range represents the highest and lowest inputs used in the level 3 valuations.

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

[3] A single pricing source is used.

[4] Underlying asset/net asset values represent fair value.

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

				At 31 December 2013		
					Effect of reasonably possible alternative assumptions[2]	
	Valuation technique(s)	Significant unobservable inputs	Range[1]	Carrying value	Favourable changes	Unfavourable changes
				£m	£m	£m
Trading and other financial assets at fair value through profit or loss						
Debt securities	Discounted cash flow	Credit spreads (bps)	n/a[3]	18	5	(2)
Equity and venture capital investments	Market approach	Earnings multiple	0.2/14.6	2,132	70	(70)
	Underlying asset/net asset value (incl. property prices)[4]	n/a	n/a	130	–	–
Unlisted equities and property partnerships in the life funds	Underlying asset/net asset value (incl. property prices)[4]	n/a	n/a	1,952	–	–
				4,232		
Available-for-sale financial assets						
Asset-backed securities	Lead manager or broker quote/consensus pricing	n/a	n/a	74	–	–
Equity and venture capital investments	Underlying asset/net asset value (incl. property prices)[4]	n/a	n/a	375	28	(19)
				449		
Derivative financial assets						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	62/192	1,461	66	(39)
	Option pricing model	Interest rate volatility	3%/112%	346	6	(7)
				1,807		
Financial assets carried at fair value				6,488		
Trading and other financial liabilities at fair value through profit or loss				39	1	(1)
Derivative financial liabilities						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	62/194	754	–	–
	Option pricing model	Interest rate volatility	3%/112%	232	–	–
				986		
Financial guarantees				50		
Financial liabilities carried at fair value				1,075		

1 The range represents the highest and lowest inputs used in the level 3 valuations.

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

3 A single pricing source is used.

4 Underlying asset/net asset values represent fair value.

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

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are as follows:

– Interest rates and inflation rates are referenced in some derivatives where the payoff that the holder of the derivative receives depends on the behaviour of those underlying references through time.
– Credit spreads represent the premium above the benchmark reference instrument required to compensate for lower credit quality; higher spreads lead to a lower fair value.
– Volatility parameters represent key attributes of option behaviour; higher volatilities typically denote a wider range of possible outcomes.
– Earnings multiples are used to value certain unlisted equity investments; a higher earnings multiple will result in a higher fair value.

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.

Debt securities

Reasonably possible alternative assumptions have been determined in respect of the Group's structured credit investment by flexing credit spreads.

Derivatives

Reasonably possible alternative assumptions have been determined in respect of the Group's derivative portfolios as follows:

(i) Uncollateralised inflation swaps are valued using appropriate discount spreads for such transactions. These spreads are not generally observable for longer maturities. The reasonably possible alternative valuations reflect flexing of the spreads for the differing maturities to alternative values.

(ii) Swaptions are priced using industry standard option pricing models. Such models require interest rate volatilities which may be unobservable at longer maturities. To derive reasonably possible alternative valuations these volatilities have been flexed within a range.

Unlisted equity, venture capital investments and investments in property partnerships

The valuation techniques used for unlisted equity and venture capital investments vary depending on the nature of the investment. Reasonably possible alternative valuations for these investments have been calculated by reference to the approach taken, as appropriate to the business sector and investment circumstances and as such the following inputs have been considered:

– for valuations derived from earnings multiples, consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple;
– the discount rates used in discounted cash flow valuations; and
– in line with International Private Equity and Venture Capital Guidelines, the values of underlying investments in fund investments portfolios.

21. Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

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

	At 30 June 2014 £m	At 31 Dec 2013 £m
Assets		
Loans and receivables: Due from fellow Lloyds Banking Group undertakings	**15,531**	15,453
Other	**7**	–
Liabilities		
Due to fellow Lloyds Banking Group undertakings	**8,617**	8,797
Derivative financial instruments	**210**	239
Subordinated liabilities	**11,529**	11,705

During the half-year to 30 June 2014 the Group earned £83 million (half-year to 30 June 2013: £127 million) of interest income and incurred £569 million (half-year to 30 June 2013: £781 million) of interest expense on balances and transactions with Lloyds Banking Group plc and fellow Group undertakings.

UK government

In January 2009, the UK government through HM Treasury became a related party of Lloyds Banking Group plc, the Bank's parent company, following its subscription for ordinary shares issued under a placing and open offer. As at 30 June 2014, HM Treasury held a 24.9 per cent interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of Lloyds Banking Group plc, and therefore of the Group, during the half-year to 30 June 2014.

In accordance with IAS 24, UK government-controlled entities are related parties of the Group. The Group regards the Bank of England and entities controlled by the UK government, including The Royal Bank of Scotland Group plc, Northern Rock (Asset Management) plc and Bradford & Bingley plc, as related parties.

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

National Loan Guarantee Scheme

The 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.

Business Growth Fund

In May 2011 the Lloyds Banking Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to commit up to £300 million of equity investment by subscribing for shares in the Business Growth Fund plc which is the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association's Business Taskforce Report of October 2010. At 30 June 2014, the Lloyds Banking Group had invested £95 million (31 December 2013: £64 million) in the Business Growth Fund and carried the investment at a fair value of £83 million (31 December 2013: £52 million).

21. Related party transactions (continued)

Big Society Capital

In January 2012 the Lloyds Banking Group agreed, together with The Royal Bank of Scotland plc (and two other non-related parties), to commit up to £50 million each of equity investment into the Big Society Capital Fund. The Fund, which was created as part of the Project Merlin arrangements, is a UK social investment fund. The Fund was officially launched on 3 April 2012 and the Lloyds Banking Group had invested £23 million in the Fund by 31 December 2013 and invested a further £4 million during the half-year to 30 June 2014.

Funding for Lending

In August 2012, the Lloyds Banking Group announced its support for the UK government's Funding for Lending Scheme and confirmed its intention to participate in the scheme. The Funding for Lending Scheme represents a further source of cost effective secured term funding available to the Lloyds Banking Group. The initiative supports a broad range of UK based customers, providing householders with more affordable housing finance and businesses with cheaper finance to invest and grow. In November 2013, the Lloyds Banking Group entered into extension letters with the Bank of England to take part in the extension of the Funding for Lending Scheme until the end of January 2015. The extension of the Funding for Lending Scheme focuses on providing businesses with cheaper finance to invest and grow. At 30 June 2014, the Lloyds Banking Group had drawn down £14 billion under the Funding for Lending Scheme. £4 billion of this has been drawn under the extension, out of which £2 billion was drawn in June 2014.

Enterprise Finance Guarantee

The Lloyds Banking Group participates in the Enterprise Finance Guarantee Scheme which was launched in January 2009 as a replacement for the Small Firms Loan Guarantee Scheme. The scheme is a UK government-backed loan guarantee, which supports viable businesses with access to lending where they would otherwise be refused a loan due to a lack of lending security. The Department for Business Innovation and Skills 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 2014, the Lloyds Banking Group had offered 6,212 loans to customers, worth a total of £508 million. The Lloyds Banking Group entities, Lloyds Bank plc, TSB Bank plc, Lloyds TSB Commercial Finance Limited and Bank of Scotland plc contracted with The Secretary of State for Business, Innovation and Skills (formerly the Secretary of State for Business, Enterprise and Regulatory Reform).

On 1 April 2014, the Group committed to the sixth tranche of the scheme, and amended and restated agreements, which have the purpose of expanding the scope of situations in which lenders will be able to use the Enterprise Finance Guarantee Scheme to facilitate lending to SME customers, including overdrafts. The annual base lending limit allocated to the Group for the financial year 1 April 2014 to 31 March 2015 is £80 million.

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 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. By 30 June 2014, £969 million had been advanced by the Lloyds Banking Group under this scheme.

Central bank facilities

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

21. Related party transactions (continued)

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

Other related party transactions
Other related party transactions for the half-year to 30 June 2014 are similar in nature to those for the year ended 31 December 2013.

22. Disposal of a non-controlling interest in TSB Banking Group plc

In June 2014, the Group disposed of a 35 per cent interest in TSB Banking Group plc (TSB) for a consideration of £430 million, after directly attributable costs of £25 million. As the Group has retained a 65 per cent interest, TSB continues to be consolidated by the Group. Accordingly, the gross assets and liabilities of TSB are recognised on the Group's balance sheet and a non-controlling interest of £565 million, representing the minorities' share of TSB's net assets, is recognised. The shortfall of £135 million between the consideration received and share of net assets sold has been deducted from shareholders' equity.

In addition to the sale of up to 35 per cent of TSB, the prospectus permitted the Group to sell 3.5 per cent of TSB through an over-allotment option. This option was exercised by the underwriters on 18 July 2014 and, as a result, a further reserves transfer of approximately £10 million will be recognised in the third quarter of 2014.

23. Future accounting developments

The following pronouncements may have a significant effect on the Group's financial statements but are not applicable for the year ending 31 December 2014 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.

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments*[1]	Replaces IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 requires financial assets to be classified into three measurement categories, fair value through profit and 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. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The classification and measurement change is not expected to have a significant impact on the Group. IFRS 9 also replaces the existing IAS 39 'incurred loss' impairment approach with an expected credit loss approach. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope. Those changes may result in an increase in the Group's balance sheet provisions for credit losses at the initial application date (1 January 2018) depending upon the composition of the Group's amortised cost financial assets, as well as the general economic conditions and the future outlook. 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 general hedging change is not expected to have a significant impact on the Group.	Annual periods beginning on or after 1 January 2018
IFRS 15 *Revenue from Contracts with Customers*[1]	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.	Annual periods beginning on or after 1 January 2017

[1] As at 30 July 2014, these pronouncements are awaiting EU endorsement.

24. Ultimate parent undertaking

The Bank's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published consolidated accounts for the year to 31 December 2013 and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN and available for download from www.lloydsbankinggroup.com.

25. Other information

The financial information in these condensed consolidated half-year financial statements does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2013 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include an emphasis of matter paragraph and did not include a statement under section 498 of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- an indication of important events that have occurred during the six months ended 30 June 2014 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2014 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by

António Horta-Osório
Group Chief Executive
30 July 2014

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

INDEPENDENT REVIEW REPORT TO LLOYDS BANK PLC

Report on the condensed consolidated half-year financial statements

Our conclusion

We have reviewed the condensed consolidated half-year financial statements, defined below, in the half-year management report of Lloyds Bank plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-year financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

What we have reviewed

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

- the consolidated income statement for the six months ended 30 June 2014;
- the consolidated statement of comprehensive income for the six months ended 30 June 2014;
- the consolidated balance sheet as at 30 June 2014;
- the consolidated statement of changes in equity for the six months ended 30 June 2014;
- the consolidated cash flow statement for the six months ended 30 June 2014; and
- the explanatory notes to the condensed consolidated half-year financial statements

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

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

What a review of condensed consolidated financial statements involves

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

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

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

INDEPENDENT REVIEW REPORT TO LLOYDS BANK PLC (continued)

Responsibilities for the condensed consolidated half-year financial statements and the review

Our responsibilities and those of the directors

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
30 July 2014
London

Notes:

(a) The maintenance and integrity of the Lloyds Banking Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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