Lloyds Banking Group plc
Form 6-K
July 31, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

31 JULY 2015

Commission File number 001-15246

LLOYDS BANKING GROUP plc

(Translation of registrant's name into English)

25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

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

Form 20-F S Form 40-F £

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

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

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333-189150 and 333-189150-01) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

EXPLANATORY NOTE

This report on Form 6-K contains the interim report of Lloyds Banking Group plc, which includes the unaudited consolidated interim results for the half-year ended 30 June 2015, and is being incorporated by reference into the Registration Statement with File Nos. 333-189150 and 333-189150-01.

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the half-year ended 30 June 2015.

Statutory basis

Statutory results are set out on pages 49 to 96. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2015 results with 2014 is of limited benefit.

Underlying basis

In order to present a more meaningful view of business performance, the results are presented on an underlying basis excluding items that in management's view would distort the comparison of performance between periods. Based on this principle the following items are excluded from underlying profit:

- the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments;
- the effects of certain asset sales, the impact of liability management actions and the volatility relating to the Group's own debt and hedging arrangements as well as that arising in the insurance businesses and insurance gross up;
- Simplification costs; which for 2015 are limited to severance costs relating to the programme announced in October 2014. Costs in 2014 include severance, IT and business costs relating to the programme started in 2011;
- TSB build and dual running costs and the loss relating to the TSB sale;
- payment protection insurance and other conduct provisions; and
- certain past service pensions credits or charges in respect of the Group's defined benefit pension arrangements.

Unless otherwise stated income statement commentaries throughout this document compare the half-year to 30 June 2015 to the half-year to 30 June 2014, and the balance sheet analysis compares the Group balance sheet as at 30 June 2015 to the Group balance sheet as at 31 December 2014.

FORWARD LOOKING STATEMENTS

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SUMMARY OF RESULTS

	Half-year to 30 June 2015	Half-year to 30 June 2014	***Change since 30 June 2014***	Half-year to 31 Dec 2014
	£m	£m	*%*	£m
Statutory results (IFRS)				
Total income, net of insurance claims	**8,807**	7,696	***14***	8,703
Total operating expenses	**(7,453)**	(6,192)	***(20)***	(7,693)
Trading surplus	**1,354**	1,504	***(10)***	1,010
Impairment	**(161)**	(641)	***75***	(111)
Profit before tax	**1,193**	863	***38***	899
Profit attributable to ordinary shareholders	**677**	574	***18***	551
Basic earnings per share	**1.0p**	0.8p	***25***	0.8p
Underlying basis (page 6)				
Underlying profit	**4,383**	3,819	***15***	3,937

Capital and balance sheet	**At 30 June 2015**	At 31 Dec 2014	***Change since 31 Dec 2014 %***
Statutory			
Loans and advances to customers[1]	**£452bn**	£478bn	***(5)***
Customer deposits[2]	**£417bn**	£447bn	***(7)***
Loan to deposit ratio[3]	**109%**	107%	***2pp***
PRA transitional risk-weighted assets	**£227bn**	£240bn	***(5)***
PRA transitional common equity tier 1 capital ratio	**13.3%**	12.8%	***0.5pp***

[1] Excludes reverse repos of £0.1 billion (31 December 2014: £5.1 billion).
[2] Excludes repos of £nil (31 December 2014: £nil).
[3] Loans and advances to customers (excluding reverse repos) divided by customer deposits (excluding repos).

STATUTORY INFORMATION (IFRS)

CONSOLIDATED INCOME STATEMENT

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

SUMMARY CONSOLIDATED BALANCE SHEET

	At 30 June 2015	At 31 Dec 2014
Assets	**£ million**	£ million
Cash and balances at central banks	**67,687**	50,492
Trading and other financial assets at fair value through profit or loss	**147,849**	151,931
Derivative financial instruments	**27,980**	36,128
Loans and receivables:		
Loans and advances to customers	**452,427**	482,704
Loans and advances to banks	**23,548**	26,155
Debt securities	**1,569**	1,213
	477,544	510,072
Available-for-sale financial assets	**32,173**	56,493
Held-to-maturity investments	**19,960**	–
Other assets	**49,639**	49,780
Total assets	**822,832**	854,896
Liabilities		
Deposits from banks	**16,966**	10,887
Customer deposits	**416,595**	447,067
Trading and other financial liabilities at fair value through profit or loss	**63,328**	62,102
Derivative financial instruments	**27,778**	33,187
Debt securities in issue	**77,776**	76,233
Liabilities arising from insurance and investment contracts	**107,604**	114,486
Subordinated liabilities	**22,639**	26,042
Other liabilities	**42,105**	34,989
Total liabilities	**774,791**	804,993
Shareholders’ equity	**42,256**	43,335
Other equity instruments	**5,355**	5,355
Non-controlling interests	**430**	1,213
Total equity	**48,041**	49,903
Total equity and liabilities	**822,832**	854,896

REVIEW OF RESULTS

The Group recorded a profit before tax of £1,193 million for the half-year to 30 June 2015, an increase of £330 million, or 38 per cent, compared to the profit before tax of £863 million for the half-year to 30 June 2014

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

REVIEW OF RESULTS (continued)

Total income, net of insurance claims, increased by £1,111 million, or 14 per cent, to £8,807 million for the half-year to 30 June 2015 from £7,696 million in the half-year to 30 June 2014.

Net interest income increased by £230 million, or 4 per cent, to £5,492 million. This increase was despite an increase of £57 million in the charge within net interest income for amounts allocated to unit holders in Open-Ended Investment Companies, from £300 million in the half-year to 30 June 2014 to £357 million in the half-year to 30 June 2015. Excluding this charge, net interest income was £287 million, or 5 per cent, higher at £5,849 million. The net interest margin increased, reflecting the disposal of lower margin assets which were outside of the Group’s risk appetite at the end of 2014 as well as the continued benefits of reduced funding and liability costs, partly offset by lower asset prices. In addition, the strengthening of the margin relative to the first half of 2014 reflects a full six months of the benefit of the Enhanced Capital Notes (ECNs) exchange in April 2014.

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

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

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

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

REVIEW OF RESULTS (continued)

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

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

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

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

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

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

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

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

Underlying basis

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

The Group Executive Committee (GEC), which is the chief operating decision maker for the Group, reviews the Group's internal reporting based around these segments (which reflect the Group's organisational and management structures) in order to assess the Group's performance and allocate resources; this reporting is provided on an underlying profit before tax basis. The GEC believes that this basis better represents the performance of the Group. IFRS 8 requires that the Group present its segmental profit before tax on the basis reviewed by the chief operating decision maker that is most consistent with the measurement principles used in measuring the Group's statutory profit before tax. Accordingly, the Group presents its segmental underlying basis profit before tax in note 2 on page 59 of its financial statements in compliance with IFRS 8 *Operating Segments*.

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

GROUP PROFIT RECONCILIATIONS

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

Asset sales

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

Liability management

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

Own debt volatility

Own debt volatility includes a loss of £390 million (half-year to 30 June 2014: gain of £226 million) relating to the change in fair value of the equity conversion feature of the Enhanced Capital Notes, which principally reflects the ongoing amortisation of the value of the conversion feature over its life. Own debt volatility also includes a £53 million gain (half-year to 30 June 2014: £25 million) relating to the change in fair value of the small proportion of the Group's wholesale funding which was designated at fair value at inception.

Other volatile items

Other volatile items includes the change in fair value of interest rate derivatives and foreign exchange hedges in the banking book not mitigated through hedge accounting, resulting in a gain of £5 million (a charge of £127 million was incurred in the first half of 2014). Other volatile items also include a positive net derivative valuation adjustment of £31 million (half-year to 30 June 2014: gain of £54 million), reflecting movements in the market implied credit risk associated with customer derivative balances.