LBG CAPITAL NO. 2 PLC

INTERIM REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED

30 JUNE 2016

Company Registration No: 07045669
Incorporated in England and Wales

LBG CAPITAL NO. 2 PLC

REPORT AND FINANCIAL STATEMENTS
For the period ended 30 June 2016

Registered in England and Wales as a public limited company No.07045669

Registered office: 25 Gresham Street, London, United Kingdom EC2V 7HN.

DIRECTORS
V. D. Savadia
R.D. Shrimpton
A.T. Rougier

COMPANY SECRETARY

M.A.A. Johnson

Contents

STRATEGIC REPORT
For the period ended 30 June 2016

PRINCIPAL OBJECTIVES AND STRATEGIES
The Company was incorporated on 15 October 2009. The Company's principal activity is to hold investments and issue capital securities on behalf of Lloyds Banking Group plc ("LBG" or the "Group").

BUSINESS MODEL
Prior to March 2016 the Company's assets consisted of subordinated notes issued by Lloyds Bank plc and its liabilities were principally Enhanced Capital Notes ("ECN's") issued to market investors.

PERFORMANCE REVIEW
The profit after taxation for the period of £427,560,000 (30 June 2015: £23,412,000) is set out in the Statement of Comprehensive Income on page 6. The dividends paid during the period were £nil (6 month period to June 2015: £nil).

Total assets as at 30 June 2016 were £630,245,000 (31 Dec 2015: £2,569,666,000) with net assets of £510,173,000 (31 Dec 2015: £82,613,000).

During March 2014, LBG made an offer to Retail and Institutional investors which would enable the Group to strengthen its capital position in line with regulatory requirements. The Group offered eligible Retail investors who held outstanding Sterling denominated Enhanced Capital Notes the opportunity to exchange their ECNs for cash. The Group also offered Institutional investors the opportunity to exchange ECNs, into a new instrument called Additional Tier 1 securities ("AT1"). The AT1 securities were issued by the ultimate parent company.

Approximately £21m was exchanged by Retail investors for cash. In addition, approximately £1.25bn ECNs held by Institutional investors was exchanged for approximately £1.33bn AT1s. The exchange resulted in a loss of £41,660,966. The company also sold a similar amount of intercompany debt securities assets to Lloyds Banking Group plc for a premium and this resulted in gain on sale of £545,943,797.

On 29 January 2016 the Group announced the redemption of certain series of ECNs using the Regulatory Call Right. The Group also launched tender offers for the remaining series of ECNs on 29 January 2016. The Group redeemed those ECNs not validly tendered using the Regulatory Call Right. The result of the tender and Regulatory Call of the ECNs was a loss to the Company of £187m which included the write off of the discount, capitalised issuance costs and legal costs. In addition, debt securities originally issued by Lloyds Bank plc (the ''Debt Securities'') were re-purchased resulting in a profit for the Company of £723m.

PRINCIPAL RISKS AND UNCERTAINTIES
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of LBG and are not managed separately. Full disclosure of the Company's financial risk management objectives and policies are given in note 15 to the financial statements.

KEY PERFORMANCE INDICATORS ("KPIs")
Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

DIRECTORS' REPORT
The directors present their report and the non-audited financial statements of the Company for the period ended 30 June 2016. The financial statements have been prepared for a proposed distribution by the Company in line with section 838 of Companies Act 2006.

DIRECTORS
The names of the directors of the Company, all of whom served throughout the period and up to the date of signing the financial statements are shown on page 1.

The following changes have taken place during the period:

V. D. Savadia	(Appointed 29 February 2016)
E.F.G. Short	(Resigned 31 January 2016)

DIRECTORS' REPORT (CONTINUED)
For the period ended 30 June 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("the EU"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union ,and IFRSs as issued by the International Accounting Standards Board (IASB), have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the Directors of the Company, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial period and at the date of approval of the financial statements or from the date of appointment in respect of the director who joined the board of the Company during the financial period. Directors no longer in office but who served on the Board of the Company at any time in the financial period had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial period.

GOING CONCERN

The Directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

The Company's directors are currently considering the possibility of liquidating the entity in the future. In the event that this was decided the Company's financial statements would be prepared on a break-up basis. However, even if liquidation was expected the break up basis would not have any material effect on the Company's balance sheet.

SUBSEQUENT EVENTS

There are no events after the balance sheet that the directors are aware of that they require to bring to the attention of the users of the financial statements.

DIRECTORS' REPORT (CONTINUED)
For the period ended 30 June 2016

On behalf of the board

R.D. Shrimpton
Director
Date: 19 August 2016

Company Registration No : 07045669

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the 6 month period to 30 June

	Note	**Half-year to 30 June 2016 £'000**	Half-year to 30 June 2015 £'000
Interest and similar income		**35,232**	118,731
Interest and similar expense		**(28,549)**	(101,425)
Net interest income	3	**6,683**	17,306
Net trading (expense) / income	4	**(6,851)**	12,222
Other operating income	5	**536,141**	-
Profits before taxation		**535,973**	29,528
Taxation	7	**(108,413)**	(6,116)
Profit for the period		**427,560**	23,412
Total comprehensive income for the period		**427,560**	23,412

The Company has no gains and losses other than those included in the results above.

The accompanying notes on pages 10 to 23 form an integral part of the financial statements.

INTERIM BALANCE SHEET

	Note	As at 30 June 2016 £000	As at 31 Dec 2015 £000
ASSETS			
Current assets			
Cash and cash equivalents		630,245	294,590
Other current assets	8	-	114,396
Amounts owed by other group companies - debt securities held as loans and receivables	14	-	2,160,680
Total current assets		630,245	2,569,666
Non-current assets			
Amounts owed by other group companies - debt securities held as loans and receivables	14	-	-
Total non-current assets		-	-
Total assets		630,245	2,569,666
LIABILITIES			
Current liabilities			
Subordinated liabilities	9	-	2,363,012
Other current liabilities	11	2,311	114,576
Current tax liabilities	10	117,761	9,249
Total current liabilities		120,072	2,486,837
Non-current liabilities			
Subordinated liabilities	9	-	-
Deferred taxation	12	-	216
Total non-current liabilities		-	216
Total liabilities		120,072	2,487,053
EQUITY			
Share capital	13	50	50
Accumulated profit		510,123	82,563
Total equity		510,173	82,613
Total liabilities and equity		630,245	2,569,666

The financial statements were approved by the Board of Directors on 19 August 2016 and signed on its behalf by:

R.D. Shrimpton
Director

The accompanying notes on pages 10 to 23 form an integral part of the financial statements.

LBG CAPITAL NO. 2 PLC

INTERIM STATEMENT OF CHANGES IN EQUITY
For the period ended 30 June 2016

	Share Capital	Accumulated (Losses) /Retained Profits	Total Equity
	£'000	**£'000**	**£'000**
Balance at 31 December 2015	50	82,563	82,613
Profit and total comprehensive income for the period	-	427,560	427,560
Balance at 30 June 2016	50	510,123	510,173

	Share Capital	Accumulated (Losses) /Retained Profits	Total Equity
	£'000	**£'000**	**£'000**
Balance at 31 December 2014	50	48,280	48,330
Profit and total comprehensive income for the period	-	23,412	23,412
Balance at 30 June 2015	50	71,692	71,742
Profit and total comprehensive income for the period	-	10,871	10,871
Balance at 31 December 2015	50	82,563	82,613

The accompanying notes on pages 10 to 23 form an integral part of the financial statements.

LBG CAPITAL NO. 2 PLC

INTERIM CASH FLOW STATEMENT

For the period ended 30 June 2016

	Note	**Half-year to 30 June 2016 £'000**	Half-year to 30 June 2015 £'000
Cash flows from operating activities			
Profit before taxation		**535,973**	29,528
Adjustment for:			
Interest income	3	**(35,232)**	(118,731)
Interest expense	3	**28,549**	101,425
Foreign exchange movement		**4,842**	(12,279)
Net gain on securities	5	**(536,141)**	-
Operating profit/(loss) before working capital changes		**(2,009)**	(57)
Decrease in other current liabilities		**-**	-
Taxation paid		**(117)**	(11,074)
Net cash used in operating activities		**(2,126)**	(11,131)
Cash flows from investing activities			
Proceeds from disposal of debt securities		**2,935,129**	12,575
Advances to group companies	14	**-**	(15,689)
Interest received		**152,159**	141,166
Net cash provided by investing activities		**3,087,288**	138,052
Cash flows from financing activities			
Repayment of subordinated liabilities		**(2,597,801)**	-
Interest paid		**(151,706)**	(137,401)
Net cash used in financing activities		**(2,749,507)**	(137,401)
Changes in cash and cash equivalents		**335,655**	(10,481)
Cash and cash equivalents at beginning of the period		**294,590**	303,797
Cash and cash equivalents at end of the period		**630,245**	293,316

The accompanying notes on pages 10 to 23 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the period ended 30 June 2016

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention, in compliance with the requirements of the Companies Act 2006 and in accordance with the applicable International Financial Reporting Standards ("IFRSs") as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRS IC).

The Company is reliant on funding provided by the Group. The Directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently for each of the periods presented, unless otherwise stated.

The preparation of the financial statements necessarily requires the exercise of judgment both in the application of accounting policies which are set out in the sections below and in the selection of assumptions used in the calculation of estimates. These estimates and judgments are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. Actual results may differ from these estimates.

The following pronouncements were effective during the period and relevant to the Company:

Pronouncement	Nature of change	IASB effective date
Annual improvements 2014	These set of amendments impacts 4 standards: • IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal. • IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts. • IAS 19, 'Employee benefits' regarding discount rates. • IAS 34, 'Interim financial reporting' regarding disclosure of information. The Company is currently assessing the impact of ''Annual Improvement 2014''.	Annual periods beginning on or after 1 January 2016
Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative	These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement. In brief INT2014-18 looks at the details. The Company is currently assessing the impact of ''Amendments to IAS 1''	Annual periods beginning on or after 1 January 2016

Notes to the Financial Statements (continued)
For the period ended 30 June 2016

The following pronouncements will be relevant to the Company but were not effective as at 30 June 2016:

Pronouncement	Nature of change	IASB effective date
IFRS 9 'Financial instruments'	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The Company is currently assessing the impact of ''IFRS 9 Financial Instruments''.	Annual periods beginning on or after 1 January 2018

There are other pronouncements, new standards and amendments which were published in 2016 but are not relevant to the Company.

(a) Revenue recognition
Interest income and expense are recognised in the Statement of Comprehensive Income for all interest–bearing financial instruments, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. Fees and commissions, which are not an integral part of the effective interest rate, are generally recognised when the service has been provided.

(b) Income taxes, including deferred income taxes
Current income tax which is payable on taxable profits is recognised as an expense in the year in which the profits arise. Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company's financial statements. Deferred tax is determined using tax rates that have been enacted or announced by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(c) Cash and cash equivalents
Cash and cash equivalents comprises cash on hand and demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Loans and receivables
Loans and receivables are accounted for at amortised cost using the effective interest method. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs.

(e) Available-for-sale financial assets
Investments in designated common interests where the Company does not control the operating activities or financial and operating policies of the investee are classified as available-for-sale and recognised in the balance sheet at their fair value. Gains and losses arising from changes in the fair value of investments classified as available-for-sale including any foreign exchange component are recognised directly in equity, until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

(f) Debt securities held as loans and receivables
Debt securities for which there is no active market are classified as loans and receivables. They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at amortised cost using the effective interest method less provision for impairment.

(g) Impairment
At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset has become impaired. If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance

sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate.

(h) Derecognition of financial assets and liabilities
Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Group has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation is discharged), cancelled or expire.

(i) Borrowings
Borrowings (which include amounts from group companies, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently measured at amortised cost using the effective interest method. The coupons paid on these instruments are recognised in the statement of comprehensive income as interest expense.

(j) Foreign currency translation
Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(k) Dividend receivable and payable
Dividends on ordinary and preference shares treated as equity are recognised in equity in the year in which they are paid. Dividends in respect of investment in ordinary shares are recognised as income in the year in which they are received.

(l) Segment reporting
The chief operating decision maker is the board of directors. The board of directors manages the business as a single operating segment.

(m) Contingent liabilities
Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

2. CRITICAL ACCOUNTING JUDGEMENTS

The Company makes assumptions and estimates that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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.

The accounting policies deemed critical to the Company's results and financial position, based upon materiality and significant judgments and estimates, are discussed below.

Impairment
The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates when there is evidence of deterioration in the counterparties ability to pay the contractual cash flows.

Notes to the Financial Statements (continued)
For the period ended 30 June 2016

3. NET INTEREST INCOME / (EXPENSE)

	Half-year to 30 June 2016 £'000	Half-year To 30 June 2015 £'000
Interest Income		
Amount owed by other group companies - debt securities held	34,121	118,131
Cash / (Overdraft) with other group companies	1,111	600
	35,232	118,731
Interest Expense		
Subordinated liabilities	28,549	101,425
	28,549	101,425
Net interest income	6,683	17,306

4. NET TRADING (EXPENSES) / INCOME

	Half-year to 30 June 2016 £'000	Half-year To 30 June 2015 £'000
Foreign exchange differences	(6,851)	12,222
Net Trading (Expense) / Income	(6,851)	12,222

5. OTHER OPERATING INCOME

	Half-year to 30 June 2016 £'000	Half-year To 30 June 2015 £'000
Net gain on securities	536,141	-
	536,141	-

On 29 January 2016 the Group announced the redemption of certain series of ECNs using the Regulatory Call Right. The Group also launched tender offers for the remaining series of ECNs on 29 January 2016. The Group redeemed those ECNs not validly tendered using the Regulatory Call Right. The result of the tender and Regulatory Call of the ECNs was a loss to the Company of £187m which included the write off of the discount, capitalised issuance costs and legal costs. In addition, debt securities originally issued by Lloyds Bank plc (the ''Debt Securities'') were re-purchased resulting in a profit for the Company of £723m.

6. ADMINISTRATION EXPENSE

	Half-year to 30 June 2016 £'000	Half-year to 30 June 2015 £'000
Statutory audit fee	-	-

The number of persons employed by the Company during the period was nil (2015: nil). Statutory audit fees for the current period were £nil. The 2015 audit fees (£15,000) were borne by Lloyds Bank plc.

7. TAXATION

(a) Analysis of tax (charge) for the 6 month period

	Half-year to 30 June 2016 £'000	Half-year to 30 June 2015 £'000
UK Corporation tax - current period	(108,629)	(6,142)
UK Corporation tax - prior year adjustment	-	-
Deferred taxation (Note 12)	216	26

Notes to the Financial Statements (continued)
For the period ended 30 June 2016

Total taxation for the period	**(108,413)**	(6,116)

The tax (charge) on the company's profit for the period is based on a UK corporation tax rate 20%.

(b) Factors affecting the tax (charge) for the period

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

	2016	2015
	£'000	£'000
Profits before taxation	535,973	29,528
Tax charge UK corporation tax rate of 20% (2015: 20.25%)	**(107,195)**	(5,980)
Deferred tax rate change	**(12)**	-
Adjustment in respect of prior years	-	-
Disallowed and non-taxable items	**(1,206)**	(136)
Total taxation (charge)	**(108,413)**	(6,116)
Effective rate	**(20.23)%**	(20.71)%

The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

8. OTHER CURRENT ASSETS

	As at 30 June 2016	As at 31 Dec 2015
	£'000	£'000
Interest receivable from other group companies - debt securities	-	114,396
	-	114,396

9. SUBORDINATED LIABILITIES

(a)

	As at 30 June 2016	As at 31 Dec 2015
	£'000	£'000
Enhanced Capital Notes (refer to b below)	-	2,383,203
Capitalised issuance costs (refer to c below)	-	(20,191)
	-	2,363,012

(b)

	ECN As at 30 June 2016	ECN As at 31 Dec 2015
Enhanced Capital Notes:	**£'000**	£'000
At beginning of the year	**2,383,202**	2,478,624
Repayments during the year	**(2,449,007)**	-
Net accretion of (discounts)/premium	**6,950**	(48,204)

9. SUBORDINATED LIABILITIES (CONTINUED)

Foreign exchange movement	58,855	(47,218)
	-	2,383,202
Accrued Interest	-	114,520
At end of the year (refer to d below)	-	2,497,722

(c)	As at 30 June 2016	As at 31 Dec 2015
Capitalised issuance costs:	**£'000**	£'000
At beginning of the year	**(20,191)**	(24,769)
Amortised during the year	**661**	4,578
Released on ECN redemption	**19,530**	-
At end of the year	-	(20,191)

(d) Details of the Enhanced Capital Notes are provided in the table below:

Rates	**Product Name**	**Series**	**Notional at 30/06/16 (million)**	**2016 Carrying Value £'000**	2015 Carrying Value £'000
8.875%	Enhanced Capital Notes due 2020	12	€0	-	101,643
9.334%	Enhanced Capital Notes due 2020	14	£0	-	22,743
6.385%	Enhanced Capital Notes due 2020	18	€0	-	439,842
15%	Enhanced Capital Notes due 2019	21	£0	-	904,824
15%	Enhanced Capital Notes due 2019	22	€0	-	466,497
15%	Enhanced Capital Notes due 2029	23	£0	-	105,099
9.125%	Enhanced Capital Notes due 2020	27	£0	-	49,005
11.125%	Enhanced Capital Notes due 2020	31	£0	-	4,520
12.75%	Enhanced Capital Notes due 2020	34	£0	-	15,791
7.625%	Enhanced Capital Notes due 2019	39	£0	-	38,760
9%	Enhanced Capital Notes due 2019	40	£0	-	15,857
14.5%	Enhanced Capital Notes due 2022	42	£0	-	19,894
9.875%	Enhanced Capital Notes due 2023	44	£0	-	5,828
11.25%	Enhanced Capital Notes due 2023	45	£0	-	22,127
10.5%	Enhanced Capital Notes due 2023	46	£0	-	9,675
11.875%	Enhanced Capital Notes due 2024	47	£0	-	19,570
9%	Enhanced Capital Notes due 2029	49	£0	-	646
8.5%	Enhanced Capital Notes due 2032	50	£0	-	3,506
16.125%	Enhanced Capital Notes due 2024	52	£0	-	20,972
7.875%	Enhanced Capital Notes due 2020		$0	-	230,923
				-	2,497,722 *

* Includes carrying value of £4,941,000 which were held by Lloyds Bank plc.

During March 2014, Lloyds Banking Group plc made an offer to Retail and Institutional investors to buy back Enhanced Capital Notes (ECNs) to enable the Group to strengthen its capital position. From the offers accepted, ECNs held by retail investors were exchanged for cash while those held by Institutional investors were exchanged into a new instrument called Additional Tier 1 securities ("AT1"). The AT1 securities were issued by the ultimate parent company.

The ECNs contained an equity conversion feature that required them to convert into ordinary shares if the consolidated

9. SUBORDINATED LIABILITIES (CONTINUED)

core tier 1 ratio of Lloyds Banking Group plc fell below 5 per cent (based on a fixed definition as defined by the Financial Services Authority in May 2009). The conversion feature met the definition of an embedded derivative and had been recorded separately as a derivative asset in the ultimate parent company and consolidated financial statements of Lloyds Banking Group plc. The conversion feature reflected the value to Lloyds Banking Group plc from the equity conversion feature contained within the ECNs. Only the liability component was held by the Company.

The ECNs issued by the Company were guaranteed by Lloyds Banking Group plc. Lloyds Banking Group plc had irrevocably and unconditionally guaranteed the due and punctual payment of all principal, premium and interest and any other sums, from time to time, expressed to be payable by the Company in respect of the ECNs and the related coupons and under Trust Deeds dated 1 December 2009 in respect thereof. The obligations under the guarantee constituted direct and unsecured obligations of Lloyds Banking Group plc, subordinated as described in the conditions of the ECNs set out in the Trust Deeds dated 1 December 2009.

In the event that Lloyds Banking Group plc published consolidated Core Tier 1 ratio falls below 5% the Company should pay to the ECN holders any accrued unpaid interest in respect of the ECNs and should redeem the ECNs at a price equal to their principal amount. ECN holders should be deemed irrevocably to have directed and authorised the Company to pay the principal amount to Lloyds Banking Group plc as consideration for Lloyds Banking Group plc agreement to issue ordinary shares and the obligations of the Company to pay principal on the relevant ECNs to holders should be discharged by the Company's obligation to pay the principal amount to Lloyds Banking Group plc.

Following a relevant change of law event or certain disqualifying event, the Company might have elected to redeem the ECNs for their principal amount together with accrued but unpaid interest (or such other amount specified in the relevant contractual terms).

The ECNs would, in the event of the winding-up of the Company, be subordinated to the claims of depositors and all other creditors of Lloyds Banking Group plc, other than creditors whose claims ranked equally with, or were junior to, the claims of the holders of the subordinated liabilities. The subordination of specific subordinated liabilities was determined in respect of the Company and any guarantors of that liability. The claims of holders of preferred shares and securities were generally junior to those of the holders of undated subordinated liabilities, which in turn were junior to the claims of holders of the dated subordinated liabilities. The subordination of the ECNs ranked equally with that of the dated subordinated liabilities. No repayment or purchase by the issuer of the subordinated liabilities might have been made prior to their stated maturity without the consent of the Financial Services Authority.

In 2015, the Group participated in the UK-wide concurrent stress testing run by the Bank of England; the Enhanced Capital Notes (ECNs) in issue were not taken into account for the purposes of core capital in the PRA stress tests and the Group determined that a Capital Disqualification Event (CDE), as defined in the conditions of the ECNs, had occurred.

On 31 March 2015, the Lloyds Banking Group plc announced that it had received permission from the Prudential Regulation Authority (PRA) for the redemption of certain series of ECNs. It also confirmed that the Group had been notified by the Trustee that it would seek declaratory judgement in respect of the interpretation of certain terms of the ECNs. A judgement was handed down on 3 June 2015 and it concluded that despite the ECNs not being taken into account for the most recent stress test applied by the PRA, the ECNs may still be taken into account for future stress tests. As a result of the judgement, the Group had sought permission to appeal to the Court of Appeal.

The CDE determination was confirmed by a unanimous decision by the Court of Appeal on 10 December 2015 and on 29 January 2016 the Group announced the redemption of certain series of ECNs using the Regulatory Call Right. The Group also launched tender offers for the remaining series of ECNs on 29 January 2016. The Group redeemed those ECNs not validly tendered using the Regulatory Call Right. The result of the tender and Regulatory Call of the ECNs was a loss to the Company of £187m which included the write off of the discount, capitalised issuance costs and legal costs. In addition, debt securities originally issued by Lloyds Bank plc (the ''Debt Securities'') were re-purchased resulting in a profit for the Company of £723m. As a result of this post balance sheet event the ECNs and the Debt Securities were reclassified from non-current to current liabilities and from non-current to current assets respectively as of 31 December 2015.

The trustee of the ECNs was granted leave by the Supreme Court to appeal the Court of Appeal decision. On 16 June the Supreme Court decided in respect of the interpretation of certain terms of the ECNs and found in the Group's favour. The Court held that a CDE, as defined in the conditions of the ECNs, had occurred. As a result, the Supreme Court approved the Group's redemption of all series of ECNs using the Regulatory Call Right in early 2016.

Notes to the Financial Statements (continued)
For the period ended 30 June 2016

10. CURRENT TAX LIABILITIES

	As at 30 June 2016 £'000	As at 31 Dec 2015 £'000
Corporation tax payable	117,761	9,249
	117,761	9,249

11. OTHER CURRENT LIABILITIES

	As at 30 June 2016 £'000	As at 31 Dec 2015 £'000
Other Payables	2,311	-
Interest payable on enhanced capital notes	-	114,520
Interest payable to other group companies	-	56
	2,311	114,576

12. DEFERRED TAXATION

	As at 30 June 2016 £'000	As at 31 Dec 2015 £'000
At beginning of the period	216	279
Deferred tax rate change	12	(11)
Deferred tax adjustment in respect of current period	(228)	(52)
At end of the period	-	216

The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

13. SHARE CAPITAL

	As at 30 June 2016 Number of shares	As at 31 Dec 2015 Number of shares	As at 30 June 2016 £	As at 31 Dec 2015 £
Issued and fully paid:				
At the beginning of the period	50,000	50,000	50,000	50,000
At the end of the period	50,000	50,000	50,000	50,000

The holder is entitled to 100% of the voting rights.

There is no contractual requirement to make dividend payments on the A ordinary share; hence they are classified as equity in line with IAS 32.

No interim dividends were paid during 2016 and 2015. No final dividend was proposed by the directors in respect of the period ending 30 June 2016 and 31 December 2015.

Notes to the Financial Statements (continued)
For the period ended 30 June 2016

14. RELATED PARTY TRANSACTIONS

The Company's immediate parent company is LBG Capital Holdings Ltd which is wholly owned by Lloyds Banking Group plc. The Company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Copies of the group financial statements may be obtained from the Company Secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The Company's related parties include its ultimate parent company, fellow subsidiaries and pension schemes of the Company's ultimate parent company and the Company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's directors.

Transactions with key management personnel

There were no transactions between the Company or its subsidiaries with key management personnel during the current period. Key management personnel and directors are employed by other companies in the Lloyds Banking Group plc and consider that their services to the Company are incidental to their other activities with the Group. Directors emoluments for the period is therefore nil (2015: nil).

Other transactions with other group companies

	2016	2015
	£'000	£'000
Lloyds Bank plc – Cash at Bank	**630,245**	294,590
Interest received (note 3)	**1,111**	600

Amounts owed by other group companies- debt securities held as loans and receivables

	2016	2015
	£'000	£'000
At beginning of the year	**2,160,680**	2,208,779
Advances during the year	**-**	18,858
Repayments during the year	**(2,221,243)**	(26,832)
Foreign exchange movement	**60,563**	(40,125)
	-	2,160,680
Representing:		
Lloyds Bank plc	**-**	2,160,680
	-	2,160,680
Interest Income earned (note 3)	**34,121**	118,131
Interest Income receivable (note 8)	**-**	114,396

15. FINANCIAL RISK MANAGEMENT

The Company uses financial instruments to meet the financial needs of its counterparties and to reduce its own exposure to fluctuations in interest rates. The Company makes loans to other Lloyds Banking Group plc. companies at fixed rates and for various years.

(a) Interest Rate Risk
Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets. From the perspective of the Company, the interest rate risks are integrated with the interest rate risks of the group and are not managed separately. The scenarios are run only for assets and liabilities that represent the major interest-bearing positions. Based on the simulations performed, the 6 month period to June 2016 impact on post-tax profit of a 0.25% shift would be an increase or decrease of approximately £1,260,489 (12 month period to December 2015: £183,940).

The table below summarises the repricing mismatches of the Company's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

Notes to the Financial Statements (continued)
For the period ended 30 June 2016

Expected repricing and maturity dates do not differ significantly from the contract dates.

As at 30 June 2016

	1 month or less £'000	3 months or less but over 1 month £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Assets:							
Amounts owed by group companies - debt securities held as loans and receivables	-	-	-	-	-	-	
Cash and cash equivalents	630,245	-	-	-	-	-	630,245
Other current assets	-	-	-	-	-	-	
Total financial assets	630,245	-	-	-	-	-	630,245
Liabilities:							
Subordinated liabilities	-	-	-	-	-	-	
Other current liabilities	-	-	-	-	-	2,311	2,311
Current tax liabilities	-	-	-	-	-	117,761	117,761
Total financial liabilities	-	-	-	-	-	120,072	120,072
Total interest sensitivity gap	630,245	-	-	-	-	120,072	510,173

As at 31 December 2015

	1 month or less £'000	3 months or less but over 1 month £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Assets:							
Amounts owed by other group companies - debt securities held as loans and receivables	-	2,160,680	-	-	-	-	2,160,680
Cash and cash equivalents	294,590	-	-	-	-	-	294,590
Other current assets	-	-	-	-	-	114,396	114,396
Total financial assets	294,590	2,160,680	-	-	-	114,396	2,569,666
Liabilities:							
Subordinated liabilities	-	2,363,012	-	-	-	-	2,363,012
Other current liabilities	-	-	-	-	-	114,576	114,576
Current tax liabilities	-	-	-	-	-	9,249	9,249
Total financial liabilities	-	2,363,012	-	-	-	123,825	2,486,837
Total interest sensitivity gap	294,590	(202,332)	-	-	-	(9,429)	82,829

Notes to the Financial Statements (continued)
For the period ended 30 June 2016

(b) Foreign Exchange Risk

The Company is exposed to currency risk (or foreign exchange risk) through its subordinated liabilities and its loans and deposits to group companies. The Company's policy is to match its exposure to foreign currencies with equivalent currency-denominated loans from, or deposits with, its fellow subsidiary company, Lloyds Bank plc. Some residual currency exposure arises from slight mismatches in the funding held and from timing differences in arranging funding. The Company's level of exposure to currency risk is monitored according to the LBG's policies.

The Company's principal net exposures are to the Euro and US Dollar.

The Company's foreign currency exposure as at 30 June 2016 is as follows:

Gross Exposures	As at 30 June 2016 £'000	As at 31 Dec 2015 £'000
EUR	2	(109,387)
USD	(6)	(22,083)

If Sterling had been weaker against the Euro or US Dollar by 10% at 30 June 2016 (10% at 31 December 2015) the impact would be nil for the EUR and the USD exposure (31 Dec 2015: £10,939,000 loss for the EUR exposure and £2,208,000 loss for the USD exposure).

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
	For the 6 month Period to June 2016	For the 6 month Period to June 2015	**As at 30 June 2016**	As at 31 Dec 2015
EUR to GBP	**1.3037**	1.3824	**1.2032**	1.3600
USD to GBP	**1.4434**	1.5258	**1.3356**	1.4814

(c) Fair Value of Financial Assets and Liabilities

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Wherever possible, fair values have been estimated using quoted market prices for instruments held or the most recent price at which the transaction occurred. Where market prices are not available, fair values have been estimated using quoted values for instruments with either identical or similar characteristics. In certain cases, where no ready markets currently exist, various techniques (such as discounted cash flows or observations of similar recent market transactions) have been developed to estimate what the approximate fair value of such instruments might be. These estimation techniques are necessarily subjective in nature and involve several assumptions.

The Company provides loans and advances to other LBG companies at fixed and floating rates. The fair value for these loans and advances as disclosed in note 15 were estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk. The fair values 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.

Debt securities held by the Company are initially recorded at fair value and subsequently as loans and receivables at amortised cost.

Notes to the Financial Statements (continued)

For the period ended 30 June 2016

Valuation hierarchy

The table below analyses the fair values of the financial assets and liabilities of the Group which are carried at amortised cost. They are categorised into levels 1 to 3 based on the degree to which their fair value is observable.

(c) Fair Value of Financial Assets and Liabilities (continued)

	Carrying value		**Fair value**	
			Level 2	Level 2
	As at 30 June 2016 £'000	As at 31 Dec 2015 £'000	**As at 30 June 2016 £'000**	As at 31 Dec 2015 £'000
Financial assets				
Amount owed by other group companies - debt securities held as loans and receivables	-	2,160,680	-	2,990,904
Cash and cash equivalents	**630,245**	294,590	**630,245**	294,590
Financial liabilities				
Subordinated liabilities	-	2,363,012	-	2,697,075

(d) Measurement Basis of Financial Assets and Liabilities

The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

As at 30 June 2016	**Loans and receivables £'000**	**Held at amortised cost £'000**	**Total £'000**
Assets:			
Amounts owed by other group companies - debt securities held	-	-	-
Cash and cash equivalents	-	**630,245**	**630,245**
Other current assets	-	-	-
Total financial assets	-	**630,245**	**630,245**
Liabilities:			
Subordinated liabilities	-	-	-
Other current liabilities	-	**2,311**	**2,311**
Total financial liabilities	-	**2,311**	**2,311**

As at 31 December 2015	Loans and receivables £'000	Held at amortised cost £'000	Total £'000
Assets:			
Amounts owed by other group company - loan balances	2,160,680	-	2,160,680
Cash and cash equivalents	-	294,590	294,590
Other current assets	-	114,39	114,396
Total financial assets	2,160,680	408,986	2,569,666
Liabilities:			
Subordinated liabilities	-	2,363,012	2,363,012
Other current liabilities	-	114,576	114,576
Total financial liabilities	-	2,477,588	2,477,588

Notes to the Financial Statements (continued)
For the period ended 30 June 2016

(e) Credit Risk

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at the period end.

	As at 30 June 2016 £'000	As at 31 Dec 2015 £'000
Amounts owed by other group companies - debt securities held as loans and receivables	-	2,160,680
Cash and cash equivalent	**630,245**	294,590
Other current assets	-	114,396
Total credit risk exposure	**630,245**	2,569,666

The current rating of the ultimate parent company, Lloyds Banking Group plc, is Baa1, and the current rating of Lloyds Bank plc, is A1 as per Moody's. None of the assets is past due nor impaired.

(f) Liquidity Risk

The table below analyse liabilities of the Company on an undiscounted future cash flow basis according to contractual or actual maturity date into relevant maturity groupings based on the remaining period at the balance sheet date.

As at 30 June 2016	**On demand £'000**	**Up to 1 month £'000**	**1 - 3 months £'000**	**3 - 12 months £'000**	**1 - 5 years £'000**	**Over 5 years £'000**	**Total £'000**
Subordinated liabilities	-	-	-	-	-	-	-
Other current liabilities	**2,311**	-	-	-	-	-	**2,311**
Total Liabilities	**2,311**	-	-	-	-	-	**2,311**

As at 31 December 2015	On demand £'000	up to 1 month £'000	1 - 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Subordinated liabilities	-	-	2,324,320	-	-	-	2,324,320
Other current liabilities	55	75,474	16,551	22,494	-	-	114,574
Total Liabilities	55	75,474	2,340,871	22,494	-	-	2,438,894

g) Capital Risk Management

The Company's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt (including 'current and non-current borrowings' as shown in the balance sheet) divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

g) Capital Risk Management (continued)

	As at 30/06/2016 £'000	As at 31/12/2015 £'000
Total liabilities	**2,311**	2,486,606
Less: cash and cash equivalents	**(630,245)**	(294,590)
Net debt	**-**	2,192,016
Total equity	**510,173**	83,060
Total capital	**510,173**	2,275,076
Gearing ratio	**0%**	96%

16. CONTINGENT LIABILITIES

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £76m (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

17. SUBSEQUENT EVENTS

There are no events after the balance sheet that the directors are aware of that they require to bring to the attention of the users of the financial statements.