Lloyds Banking Group plc
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

25 February 2016

LLOYDS BANKING GROUP plc
(Translation of registrant's name into English)

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25 Gresham Street
London
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United Kingdom

(Address of principal executive offices)

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

Form 20-F..X.. Form 40-F.....

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

Yes ..... No ..X..

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

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 25 February 2016
re: Final Results

Lloyds Banking Group plc

2015 Full Year Results

25 February 2016

BASIS OF PRESENTATION

This release covers the results of Lloyds Banking Group plc together with its subsidiaries (the Group) for the year ended 31 December 2015.

Statutory basis: Statutory information is set out on pages 59 to 94. 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: Underlying basis information is set out on pages 1 to 31. 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:

– asset sales and other items, which includes the effects of certain asset sales, the impact of liability management actions, the volatility relating to the Group's own debt and hedging arrangements as well as that arising in the insurance businesses, insurance gross up, the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments, and certain past service pensions credits or charges in respect of the Group's defined benefit pension arrangements;

– Simplification costs, which for 2015 are limited to redundancy 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; and

– payment protection insurance and other conduct provisions.

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

TSB: On 24 March 2015 the Group sold a 9.99 per cent interest in TSB reducing its holding to 40 per cent. This sale resulted in a loss of control over TSB and its deconsolidation. Accordingly, the Group's results in 2015 include TSB for the first quarter only. To facilitate meaningful period-on-period comparison, the operating results of TSB have been reported separately within underlying profit in all periods. The sale of the remaining interest was completed in the second quarter of the year.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

CONTENTS

	Page
Key highlights	1
Consolidated income statement	2
Balance sheet and key ratios	2

Summary consolidated balance sheet	3
Group Chief Executive's statement	4
Chief Financial Officer's review of financial performance	8
Underlying basis segmental analysis	15
Underlying basis quarterly information	16
Divisional highlights	
Retail	17
Commercial Banking	19
Consumer Finance	21
Insurance	23
Run-off and Central items	26
Additional information	
Reconciliation between statutory and underlying basis results	27
Banking net interest margin	28
Other operating income	29
Volatility arising in the insurance businesses	29
Return on required equity	30
Number of employees (full-time equivalent)	30
Remuneration	31
Risk management	
Principal risks and uncertainties	32
Credit risk portfolio	35
Funding and liquidity management	46
Capital management	51
Statutory information	
Primary statements	59
Consolidated income statement	60
Consolidated statement of comprehensive income	61
Consolidated balance sheet	62
Consolidated statement of changes in equity	64
Consolidated cash flow statement	66
Notes to the consolidated financial statements	67
Contacts	95

RESULTS FOR THE FULL YEAR

'We made a strong start in 2015 to the next phase of our strategy and have delivered a robust financial performance, enabling increased dividend payments. Our differentiated, UK focused, retail and commercial business model continues to deliver, with our financial strength, cost leadership and lower risk focus positioning us well in the face of current market uncertainty. We remain confident in our ability to become the best bank for customers and shareholders, while continuing to support the economy and helping Britain prosper.'

António Horta-Osório
Group Chief Executive

Robust financial performance with increased underlying profits and returns

- Underlying profit of £8.1 billion, up 5 per cent (up 10 per cent excluding TSB); underlying return on equity of 15.0 per cent (2014: 13.6 per cent)
- Total income up 1 per cent to £17.6 billion
  - Net interest income of £11.5 billion, up 5 per cent, driven by further margin improvement to 2.63 per cent
  - Other income 5 per cent lower at £6.2 billion, largely due to disposals and run-off, with expected recovery in the last quarter despite impact of weather related insurance claims (c.£60 million)
- Operating costs lower at £8.3 billion despite additional investment and Simplification costs; market-leading cost:income ratio further improved by 0.5 percentage points to 49.3 per cent
- Impairment charge down 48 per cent to £568 million; asset quality ratio improved by 9 basis points to 0.14 per cent
- Statutory profit before tax of £1.6 billion (2014: £1.8 billion), with increased PPI charge
- PPI provision of £4.0 billion includes additional £2.1 billion in fourth quarter reflecting action on proposed time-bar
- Capital generation in year of 300 basis points pre dividend and PPI costs
- Strong balance sheet with pro forma common equity tier 1 (CET1) ratio of 13.0 per cent (2014: 12.8 per cent), 13.9 per cent before 2015 dividends; pro forma leverage ratio of 4.8 per cent (2014: 4.9 per cent)
- Tangible net assets per share post dividend of 52.3 pence, 53.8 pence pre dividend (31 Dec 2014: 54.9 pence). Significant improvement post year end and now estimated at 55.6 pence at 19 February

Our differentiated UK focused business model continues to deliver

- Improving customer satisfaction while helping Britain prosper through sustainable growth in targeted segments: net lending to SMEs up 5 per cent, and supporting 1 in 4 first-time buyers
- Simpler and more efficient; accelerated delivery of cost initiatives and targeting further efficiency savings
- Low risk business model and cost discipline provide security and competitive advantage
- Simple, UK focused, multi-brand model and actively responding to lower for longer interest rates
- Completion of sale of TSB to Banco Sabadell
- UK government stake reduced to approximately 9 per cent

Guidance reflects improved business performance, low risk business model and lower interest rate environment

- Net interest margin for 2016 expected to increase to around 2.70 per cent
- Asset quality ratio for 2016 expected to be around 20 basis points
- Continue to target return on required equity of 13.5 to 15.0 per cent and around 45 per cent cost:income ratio with reductions every year; based on current interest rate assumptions, we now expect these to be delivered in 2018 and as we exit 2019, respectively
- Capital generation guidance improved; now expect to generate around 2 percentage points of CET1 per annum, pre dividend

Increased ordinary dividend with payment of a special dividend

- The Board has recommended a final ordinary dividend of 1.5 pence per share, making a total ordinary dividend for the year of 2.25 pence per share, in line with our progressive and sustainable ordinary dividend policy
- In addition, the Board has recommended a capital distribution in the form of a special dividend of 0.5 pence per share

CONSOLIDATED INCOME STATEMENT – UNDERLYING BASIS

	2015 £ million	2014 £ million	Change %
Net interest income	11,482	10,975	5
Other income	6,155	6,467	(5)
Total income	17,637	17,442	1
Operating costs	(8,311)	(8,322)	–
Operating lease depreciation	(764)	(720)	(6)
Total costs	(9,075)	(9,042)	–
Impairment	(568)	(1,102)	48
Underlying profit excluding TSB	7,994	7,298	10
TSB	118	458	
Underlying profit	8,112	7,756	5
Asset sales and other items	(716)	(1,345)	
Simplification costs	(170)	(966)	
TSB costs	(745)	(558)	
Payment protection insurance provision	(4,000)	(2,200)	
Other conduct provisions	(837)	(925)	
Profit before tax – statutory	1,644	1,762	(7)
Taxation	(688)	(263)	
Profit for the year	956	1,499	(36)
Underlying earnings per share	8.5p	8.1p	0.4p
Earnings per share	0.8p	1.7p	(0.9)p
Dividends per share – ordinary	2.25p	0.75p	
– special	0.5p	–	
Total	2.75p	0.75p	
Banking net interest margin1	2.63%	2.40%	23bp
Average interest-earning banking assets1	£442bn	£461bn	(4)
Cost:income ratio1	49.3%	49.8%	(0.5)pp
Asset quality ratio1	0.14%	0.23%	(9)bp
Return on risk-weighted assets	3.53%	3.02%	51bp
Return on assets	0.98%	0.92%	6bp
Underlying return on required equity	15.0%	13.6%	1.4pp
Statutory return on required equity	1.5%	3.0%	(1.5)pp

BALANCE SHEET AND KEY RATIOS

	At 31 Dec 2015	At 31 Dec 2014	Change %
Loans and advances to customers2,3	£455bn	£456bn	–
Customer deposits3	£418bn	£423bn	(1)
Loan to deposit ratio3	109%	108%	1pp

Pro forma common equity tier 1 ratio4	13.0%	12.8%	0.2pp
Common equity tier 1 ratio	12.8%	12.8%	–
Transitional total capital ratio	21.5%	22.0%	(0.5)pp
Risk-weighted assets	£223bn	£240bn	(7)
Pro forma leverage ratio4	4.8%	4.9%	(0.1)pp
Tangible net assets per share	52.3p	54.9p	(2.6)p

1 Excluding TSB.
2 Excludes reverse repos of £nil (31 December 2014: £5.1 billion).
3 Comparatives restated to exclude TSB.
4 Including Insurance dividend relating to 2015, paid in 2016. Excluding the Insurance dividend the leverage ratio was the same at 4.8 per cent.

SUMMARY CONSOLIDATED BALANCE SHEET

Assets	At 31 Dec 2015 £ million	At 31 Dec 2014 £ million
Cash and balances at central banks	58,417	50,492
Trading and other financial assets at fair value through profit or loss	140,536	151,931
Derivative financial instruments	29,467	36,128
Loans and receivables:		
Loans and advances to customers	455,175	482,704
Loans and advances to banks	25,117	26,155
Debt securities	4,191	1,213
	484,483	510,072
Available-for-sale financial assets	33,032	56,493
Held-to-maturity investments	19,808	–
Other assets	40,945	49,780
Total assets	806,688	854,896

Liabilities		
Deposits from banks	16,925	10,887
Customer deposits	418,326	447,067
Trading and other financial liabilities at fair value through profit or loss	51,863	62,102
Derivative financial instruments	26,301	33,187
Debt securities in issue	82,056	76,233
Liabilities arising from insurance and investment contracts	103,071	114,166
Subordinated liabilities	23,312	26,042
Other liabilities	37,854	35,309
Total liabilities	759,708	804,993
Shareholders’ equity	41,234	43,335
Other equity instruments	5,355	5,355
Non-controlling interests	391	1,213
Total equity	46,980	49,903
Total liabilities and equity	806,688	854,896

GROUP CHIEF EXECUTIVE'S STATEMENT

Highlights

2015 was a milestone year for Lloyds Banking Group. In a year in which we celebrated the 250th anniversary of Lloyds Bank and the 200th anniversary of Scottish Widows, we also continued to make strong progress in the next phase of our strategy to become the best bank for customers and shareholders. We improved customer experience, increased net lending in key customer segments, and delivered on key targets within the Helping Britain Prosper Plan. At the same time our financial performance has continued to improve, with an increase in underlying profitability and returns as well as a further strengthening of our already strong capital position, in spite of additional PPI provisions reflecting the Financial Conduct Authority's (FCA) consultation on time barring. This delivery has, in turn, enabled us to increase the ordinary dividend and to return surplus capital through a special dividend. As a result of our ongoing progress, the UK government has made further substantial progress in returning the Group to full private ownership.

The economic and regulatory environment

As a UK retail and commercial bank, we are well placed to continue to support and benefit from the sustainable recovery in the UK economy. While the current prolonged period of low interest rates and increasing competition have created challenges for profitability across the UK banking sector, we are well positioned, given our cost leadership position and low risk business model. The underlying health of the UK economy, to which we are inextricably linked, also remains resilient. This is reflected in strong employment levels, reduced levels of household and corporate indebtedness, and increased house prices, amongst other things, which provide a positive backdrop and underpin the Group's future prospects. In the face of current market volatility and uncertainties including the forthcoming EU referendum, our strong balance sheet and low risk approach positions us well, while our differentiated business model continues to provide competitive advantage.

We remain well positioned in a regulatory environment that continues to evolve. 2015 brought greater clarity on a number of issues that are significant for the Group and the wider banking sector. We support the aims of the Competition and Markets Authority (CMA) in ensuring that small business customers and consumers have effective choice and are adequately protected, and we welcome the publication of its notice of possible remedies to ensure these objectives are achieved. Our simple, UK focused business model positions us well for ring-fencing and the Minimum Requirements for own funds and Eligible Liabilities (MREL).

In line with its broader aim of creating a safer and more stable UK banking sector, in December the Financial Policy Committee clarified its views on the future capital requirements for the industry. Importantly, these views for the industry as a whole are broadly consistent with the amount of capital we wish to retain to grow the business, meet regulatory requirements and cover uncertainties. This, in turn, supports the Group's expectation to be able to distribute a significant proportion of the capital it generates going forward. Finally, we welcome the decision of the FCA to consult on a deadline for PPI complaints and the certainty that this will bring for both customers and shareholders.

Financial performance and balance sheet strength

The Group has delivered another robust financial performance in the year, with underlying profit increasing by 5 per cent to £8,112 million, or by 10 per cent excluding TSB, leading to an improvement in our underlying return on required equity to 15.0 per cent. This improvement was driven by net interest income, reflecting the strengthening of our net interest margin, lower operating costs and a significant reduction in impairment charges, which more than offset the more subdued outturn for other income. Statutory profit before tax was 7 per cent lower at £1,644 million, after additional charges that we have taken for PPI.

In 2015, we strengthened our provision for PPI by £4.0 billion, with a £2.1 billion increase taken in the fourth quarter primarily reflecting our interpretation of the FCA's consultation on a proposed time bar as well as the Plevin case. We

also charged £745 million in relation to the disposal of TSB, bringing the total cost of delivering this commitment to the EU, which is now complete, to £2.4 billion over the past five years.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

During the year, we have continued to strengthen our balance sheet, with our strong capital generation enabling us to increase our common equity tier 1 (CET1) ratio to 13.0 per cent, after increased dividend payments. This and our other capital and leverage ratios remain among the strongest of our major banking peers worldwide, in turn positioning us well for evolving regulatory capital requirements. In addition, the Group's liquidity position remains strong, with our total wholesale funding of £120 billion at the end of 2015 more than covered by our liquid assets of £123 billion.

The progress we have made in successfully executing our differentiated, simple and low risk business model is now being increasingly recognised, with the major credit rating agencies of Fitch, Moody's and Standard & Poor's having all either strengthened or reaffirmed the Bank's credit ratings during the course of the year. The transformation of the Group's risk profile has also been reflected in our credit default swap spread, which remains the lowest of our major UK banking peers. This and our cost:income ratio, which, at 49.3 per cent, is also the lowest of our major UK peers, remain ongoing sources of competitive advantage in line with the strategic plan presented to the market in June 2011.

Strategic progress

In 2015, we have made good progress in the three strategic objectives that we outlined at our strategic update in October 2014: creating the best customer experience; becoming simpler and more efficient; and delivering sustainable growth.

Creating the best customer experience

As a customer-focused business, we are committed to meeting our customers' evolving needs and preferences effectively through our multi-brand and multi-channel approach. In an environment where the pace of digital adoption is accelerating, we now have the largest digital bank, with our online customer base amounting to over 11.5 million customers and our mobile banking customer base of 6.6 million customers able to access the UK's no.1 rated banking app. Our strategic commitments for digital also remain on track, with c.55 per cent of customer needs being met digitally in 2015. We remain focused, however, on our integrated, multi-channel approach that our clients value and have continued to enhance and optimise the branch network to ensure that it meets our customers' evolving needs. In particular, we have now introduced Wi-fi connectivity and automated solutions for more simple customer transactions in nearly 70 per cent of branches. In addition, we have now launched our remote advice proposition, enabling customers to interact with us from the comfort of their own homes. In 2015 we also enhanced a number of customer processes, having launched an online feature which enables customers to obtain a mortgage agreement in principle in real time, and piloted a new process which has halved the time to open a new business bank account. Our progress in creating the best customer experience has been reflected in our net promoter score across the Group, which has continued to improve in 2015 and is now over 50 per cent higher than at the end of 2011. Group reportable banking complaints (excluding PPI) also remain significantly lower than the average of our major banking peers.

Becoming simpler and more efficient

Our cost leadership position remains a key source of competitive advantage and strategic priority for the Group. We continue to invest significantly in IT with a focus on ensuring that our systems and processes are both efficient and resilient and that our customers' experiences are improved through the end-to-end automation of key customer journeys. In addition, we achieved over £150 million of run-rate savings in third party spend in the year by managing demand more efficiently and negotiating better rates with our suppliers. Through these and other efficiency initiatives, we have to date delivered total run rate savings of £373 million in the second phase of our Simplification programme,

and we remain ahead of target in achieving total run-rate savings of £1 billion by the end of 2017. In addition, we are actively responding to prolonged lower interest rates and have accelerated our cost savings delivery while also targeting further efficiency initiatives. The combination of this absolute focus on cost management and the resilience of our income generation has enabled us to improve our market-leading cost:income ratio to 49.3 per cent from 49.8 per cent in 2014.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Delivering sustainable growth

The Group aims to deliver growth across its key customer segments that is sustainable and consistent with its low risk business model. In 2015 we continued to make good progress in growing above the market in areas where we are underrepresented. Net lending to our SME customers increased by over £1 billion or 5 per cent in the year, continuing the trend of the last five years of significantly outperforming the market overall. Our Consumer Finance business is also generating strong growth with an ahead of plan 17 per cent year-on-year increase in UK lending, with motor finance continuing to deliver double digit growth and our credit card balances growing by approximately 4 per cent compared with the market growth rate of less than 2 per cent. We continue to support first-time buyers and remain the largest lender to this important customer group, providing 1 in 4 first-time buyer mortgages in 2015. We have taken the conscious decision, however, to balance margin considerations with volume growth in the mortgage business, growing our open book by around 1 per cent versus a market that grew by around 2.5 per cent. We believe this is the right approach as the leader in what is, at the moment, a low growth market where growth is predominantly coming from Buy-to-let.

Government stake and TSB sale

The combination of the significant progress we have made towards our strategic objectives and our robust financial performance has also enabled the UK government to make further substantial progress in returning the Group to full private ownership during the course of 2015. The government has now reduced its stake from 43 per cent to around 9 per cent, returning approximately £16 billion to the UK taxpayer above their 'in price', on top of the dividends paid in 2015. We will continue to support the proposed retail offer, but following the government's announcement on 28 January 2016, this has been deferred until it determines that the market conditions are appropriate. Separately, the completion of the sale of our interest in TSB to Banco Sabadell in June 2015 represents the continued delivery of our commitment to the European Commission under the terms of the state aid agreement.

Dividend

In line with our progressive and sustainable ordinary dividend policy, the Board has recommended a final ordinary dividend of 1.5 pence, taking the total ordinary dividend declared for the year to 2.25 pence per ordinary share.

In addition, the Board has recommended a special dividend of 0.5 pence per share, representing the distribution of surplus capital over and above the Board's view of the current level of capital required to grow the business, meet regulatory requirements and cover uncertainties.

Helping Britain Prosper and delivering growth in our key customer segments

As a customer-focused UK centric bank, our prospects are inextricably linked to the strength of the UK economy, which we continue to support through our strategic net lending targets in our key customer segments and the targets we have set through our Helping Britain Prosper Plan.

In our Retail division we continue to be a lead supporter of the UK government's Help to Buy scheme and have exceeded our lending target to small businesses within the Helping Britain Prosper Plan by supporting over 1 in 5 new business start-ups. In Commercial Banking we continue to play a lead role in supporting the UK economy and remain

the largest net lender to SMEs in the UK government's Funding for Lending scheme. Our Consumer Finance business also continues to deliver strong growth within our low risk appetite, increasing its market share, with the division also making a number of improvements to our customer propositions across motor finance and credit cards. In Insurance, following the completion of our first bulk annuity transaction with the Scottish Widows With-Profits fund in the first half, we have also successfully completed our first open market transaction in the fourth quarter and will continue to participate in this attractive market.

We continue to successfully deliver against our Helping Britain Prosper Plan targets to people, businesses and communities across the UK. Amongst these targets, in 2015 we donated £17 million to the Banks' four independent charitable foundations to tackle disadvantage, while also providing more than £1 million of additional funding to support credit unions and more than 320,000 colleague volunteering hours to support community projects.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Building the best team

We recognise the strategic importance of colleague engagement and the role that this plays in ensuring the continued delivery of our strategic priorities. The latest colleague survey results show that colleague engagement has continued to improve to the highest level to date and that our performance excellence score is above the UK 'high performance norm'. We have also made good progress with our target for gender diversity in senior management, with women now representing 31 per cent of senior managers, up from 28 per cent two years ago. These encouraging results demonstrate the Group's success in embedding a customer-focused culture and that our colleagues are committed to our aim of creating the best experience for our customers.

Outlook

Our strong strategic progress and good financial performance position the Group well for future success, with our business model allowing us to respond effectively to the challenges of the lower for longer interest rate environment and the current market volatility. We remain committed to our financial targets for return on required equity and cost:income ratio, although in light of the implementation of the corporation tax surcharge for banks and the lower for longer interest rate environment, we now expect to deliver a return on required equity of 13.5 to 15.0 per cent in 2018 and a cost:income ratio of around 45 per cent as we exit 2019, with improvements every year. Our capital generation will remain strong and we are increasing our guidance for annual pre dividend CET1 capital generation to around 2 per cent. In 2016, we expect an increased net interest margin of around 2.70 per cent and, in light of our low risk approach, a full year asset quality ratio of around 20 basis points, significantly lower than our medium-term guidance.

Summary

In our milestone year we made a strong start to the next phase of our strategy and have delivered a robust financial performance. The combination of this strategic and financial performance with our simple, low risk business model positions us well in the face of uncertainties regarding the global economic, political, competitive and regulatory environment and underpins our confidence in the Group's future prospects. From these firm foundations, we believe we are well placed to support the UK economy and become the best bank for customers, while delivering superior and sustainable returns for our shareholders.

António Horta-Osório
Group Chief Executive

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE

Overview: robust financial performance with increased underlying profits and returns; strong balance sheet
The Group's underlying profit increased by 5 per cent in the year to £8,112 million, driven by a 1 per cent increase in total income, lower operating costs despite increased investment in the business and a 48 per cent improvement in impairments. Statutory profit before tax was £1,644 million (2014: £1,762 million) after provisions for PPI of £4,000 million (2014: £2,200 million) including an additional £2,100 million charged in the fourth quarter. Statutory profit after tax was £956 million compared to £1,499 million in 2014.

Total loans and advances to customers were £455 billion compared with £456 billion (excluding TSB) at 31 December 2014, with growth in the key customer segments offset by further reductions in run-off and portfolios closed to new business. Customer deposits were £418 billion compared with £423 billion (excluding TSB), a reduction of £5 billion, or 1 per cent, compared with 31 December 2014, largely due to a planned reduction in tactical deposits.

The combination of good underlying profitability and continued reduction in risk-weighted assets resulted in an improvement in the Group's common equity tier 1 ratio on a pro forma basis to 13.9 per cent before taking account of dividends in respect of 2015 and 13.0 per cent after dividends (31 December 2014: 12.8 per cent). The pro forma leverage ratio was 4.8 per cent (31 December 2014: 4.9 per cent).

Total income

	2015 £ million	2014 £ million	Change %
Net interest income	11,482	10,975	5
Other income	6,155	6,467	(5)
Total income	17,637	17,442	1
Banking net interest margin	2.63%	2.40%	23bp
Average interest-earning banking assets	£441.9bn	£461.1bn	(4)
Average interest-earning banking assets excluding run-off	£427.5bn	£431.2bn	(1)

Further detail on net interest income and other income is included on pages 28 and 29.

Total income of £17,637 million was 1 per cent higher than 2014, with growth in net interest income partly offset by lower other income.

Net interest income increased 5 per cent to £11,482 million, reflecting the improved net interest margin. Net interest margin of 2.63 per cent was up 23 basis points, driven by a combination of lower deposit and wholesale funding costs, partly offset by continued pressure on asset prices. Average interest-earning banking assets fell by £19 billion, or 4 per cent, to £442 billion, largely as a result of the reduction of £15.6 billion in run-off assets. Excluding run-off, average interest-earning banking assets were 1 per cent lower with lending growth in key customer segments offset by reductions in portfolios closed to new business.

The Group expects the net interest margin for the 2016 full year will be around 2.70 per cent, despite continued low base rates, benefiting from further improvements in deposit and wholesale funding costs, including the impact of the ECN exchange, partly offset by continued pressure on asset prices.

Other income was 5 per cent lower at £6,155 million largely as a result of the reduction in run-off business. Excluding run-off, other income was in line with 2014. Fees and commissions were lower than 2014 mainly due to a reduction in current account and credit card transaction related net income, and the impact of changes in the regulatory environment. This was partly offset by income generated by the Insurance business from its entry into the bulk annuity market and the increase in operating lease income. As expected, other income recovered in the fourth quarter, and at £1,528 million, was 11 per cent ahead of the third quarter and 1 per cent higher than in the same period last year, despite insurance claims as a result of December's floods and storms of £58 million.

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Costs

	2015 £ million	2014 £ million	Change %
Operating costs	8,311	8,322	–
Cost:income ratio	49.3%	49.8%	(0.5)pp
Simplification savings annual run-rate[1]	£373m		

1 Run-rate savings achieved from phase II of the Simplification programme.

Operating costs of £8,311 million were lower than in 2014 despite now including costs relating to the next phase of Simplification, with a £466 million increase in investment (including strategic initiatives and Simplification), and £143 million for pay, inflation and other costs, offset by £491 million of incremental savings from the Simplification programmes and £129 million of reductions from business disposals.

Phase II of the Simplification programme has delivered £373 million of annual run-rate savings to date and we are ahead of target in achieving £1 billion of Simplification savings by the end of 2017. The Group has a proven track record in cost management and given the lower interest rate environment, is responding through the accelerated delivery of cost initiatives and targeting further efficiency savings.

The cost:income ratio improved to 49.3 per cent from 49.8 per cent in 2014 and remains one of the lowest of our major UK banking peers. We remain committed to achieving annual improvements in the cost:income ratio with a target ratio of around 45 per cent and based on current interest rate assumptions we now expect to achieve this target as we exit 2019.

Operating lease depreciation increased 6 per cent to £764 million driven by the continued growth in the Lex Autolease business.

Impairment

	2015 £ million	2014 £ million	Change %
Continuing business impairment charge	560	899	38
Run-off impairment charge	8	203	96
Total impairment charge	568	1,102	48
Asset quality ratio	0.14%	0.23%	(9)bp
Impaired loans as a % of closing advances	2.1%	2.9%	(0.8)pp
Provisions as a % of impaired loans	46.1%	56.4%	(10.3)pp

Provisions as a % of impaired loans excluding run-off	43.0%	44.6%	(1.6)pp

The impairment charge was £568 million, 48 per cent lower than in 2014 as a result of the significant reduction in run-off business and improvements in all divisions. The charge is net of significant provision releases and write-backs, although at lower levels than seen in 2014. The asset quality ratio improved to 14 basis points from 23 basis points in 2014.

Impaired loans as a percentage of closing advances reduced to 2.1 per cent from 2.9 per cent at the end of December 2014, driven by reductions within both the continuing and the run-off portfolios including the impact of the sale of Irish commercial loans in the third quarter. Provisions as a percentage of impaired loans reduced from 56.4 per cent to 46.1 per cent reflecting the disposal of highly covered run-off assets during the year. The continuing business coverage ratio reduced slightly to 43.0 per cent (31 December 2014: 44.6 per cent) but remains strong.

In 2016, the Group expects to benefit from its continued disciplined approach to the management of credit and the resilient UK economy. The asset quality ratio for the 2016 full year is expected to be around 20 basis points, comprising a marginally lower level of gross impairments at around 25 basis points, compared with 28 basis points in 2015 and a much reduced level of write-backs and provision releases.

CHIEF FINANCIAL OFFICER’S REVIEW OF FINANCIAL PERFORMANCE (continued)

Statutory profit

	2015 £ million	2014 £ million	Change %
Underlying profit	8,112	7,756	5
Asset sales and other items:			
Asset sales and volatility	(182)	(1,190)	
Fair value unwind	(192)	(529)	
Other items	(342)	374	
	(716)	(1,345)	
Simplification costs	(170)	(966)	
TSB costs	(745)	(558)	
Payment protection insurance provision	(4,000)	(2,200)	
Other conduct provisions	(837)	(925)	
Profit before tax – statutory	1,644	1,762	(7)
Taxation	(688)	(263)	
Profit for the year	956	1,499	(36)
Underlying return on required equity	15.0%	13.6%	1.4pp
Statutory return on required equity	1.5%	3.0%	(1.5)pp

Further information on the reconciliation of underlying to statutory results is included on page 27.

Statutory profit before tax was £1,644 million, down 7 per cent compared to 2014.

Asset sales and other items

Asset sales and volatility of £182 million included a charge of £101 million for the reduction in the value of the equity conversion feature embedded in the Group's Enhanced Capital Notes (ECNs) and negative insurance volatility of £105 million offset by a number of other items including own debt and banking volatility. The charge in 2014 of £1,190 million included a net loss of £988 million relating to the Group's ECN exchange offers and changes in value of the equity conversion feature, and negative insurance volatility of £228 million.

The fair value unwind arises as a result of acquisition related adjustments made at the time of the HBOS transaction in 2009. The reduction in the unwind in 2015 to £192 million relates to a lower charge relating to the HBOS subordinated debt of £363 million (2014: £497 million) and a credit for the accelerated amortisation of a fair value adjustment which was recognised in the first half of the year.

Other items of £342 million related to the amortisation of intangible assets. The credit of £374 million in 2014 included a gain of £710 million relating to changes made to the Group's defined benefit pension schemes.

Simplification

Simplification costs in 2015 were £170 million and relate to redundancy costs incurred to deliver phase II of the Simplification programme. The costs of £966 million in 2014 primarily related to redundancy, IT and other business costs of implementation relating to phase I.

TSB

The Group's results in 2015 include TSB for the first quarter only, following the agreement in March to sell our remaining stake in the business to Banco Sabadell. The charge of £745 million includes £660 million relating to the sale of TSB which covers the net costs of the Transitional Service Agreement between the Group and TSB and the contribution to be provided by the Group to TSB in migrating to an alternative IT platform, partially offset by the gain on sale.

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

PPI

The Group increased the provision for PPI costs by a further £4.0 billion in 2015, bringing the total amount provided to £16.0 billion. This included an additional £2.1 billion in the fourth quarter, largely to reflect the impact of our interpretation of the proposals contained within the Financial Conduct Authority's (FCA) consultation paper regarding a potential time bar and the Plevin case. As at 31 December 2015, £3.5 billion or 22 per cent of the total provision, remained unutilised with approximately £3.0 billion relating to reactive complaints and associated administration costs.

The volume of reactive PPI complaints has continued to fall, with an 8 per cent reduction in 2015 compared with 2014, to approximately 8,000 complaints per week. Whilst direct customer complaint levels fell 30 per cent year-on-year, those from Claims Management Companies (CMCs) have remained broadly stable and as a result, CMCs now account for over 70 per cent of complaints.

Assuming current FCA proposals are implemented and an average of approximately 10,000 complaints per week, including those related to Plevin, the outstanding provision should be sufficient to cover all future PPI related complaints and associated administration costs through to mid-2018.

Weekly complaint trends could vary significantly throughout this period, given they are likely to be impacted by a number of factors including the potential impact of the FCA's proposed communication campaign as well as changes in the regulation of CMCs.

Other conduct provisions

In 2015, the Group incurred a charge of £837 million, of which £302 million was recognised in the fourth quarter relating to a number of non-material items including packaged bank accounts and a number of other product rectifications primarily in Retail, Insurance and Commercial Banking. Within the full year charge, £720 million of provisions related to potential claims and remediation in respect of products sold through the branch network and continuing investigation of matters highlighted through industry wide regulatory reviews, as well as legacy product sales and historical systems and controls such as those governing legacy incentive schemes. This includes a full year charge of £225 million in respect of complaints relating to packaged bank accounts. The full year charge also included the previously announced settlement of £117 million that the Group reached with the FCA with regard to aspects of its PPI complaint handling process during the period March 2012 to May 2013.

Taxation

The tax charge for the year to 31 December 2015 was £688 million (2014: £263 million), representing an effective tax rate of 42 per cent (2014: 15 per cent).

The effective tax rate was higher than the UK corporation tax rate largely due to the introduction in 2015 of restrictions on the deductibility of conduct related provisions which resulted in an additional tax charge of £459 million. Adjusting for this charge, the effective tax rate would have been 14 per cent reflecting a number of positive one-off items including non-taxable and relieved gains and a small prior year adjustment. Going forward we do not expect these positive one-off items to continue and now expect a medium-term effective tax rate of around 27 per cent, including the forthcoming 8 per cent surcharge on banking profits. This is lower than our previous guidance of around 30 per cent, reflecting actions on PPI.

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Return on required equity[1]

	At 31 Dec 2015	At 31 Dec 2014	Change %
Underlying return on required equity	15.0%	13.6%	1.4pp
Statutory return on required equity	1.5%	3.0%	(1.5)pp

1 For basis of calculation see page 30.

Underlying return on required equity has improved in the year reflecting the improvement in underlying profit together with a reduction in the required equity which has been driven by the fall in risk-weighted assets. The statutory return was lower, largely as a result of higher conduct related provisions and the restriction on their tax deductibility.

At the time of the strategic update in October 2014, we anticipated achieving a sustainable return on required equity, of around 13.5 to 15.0 per cent by the end of 2017. Since this time, the expected level of interest rates over the plan period has reduced significantly, required equity has increased to 12 per cent and the new bank tax surcharge of 8 per cent will come into effect from 1 January 2016. We continue to target 13.5 to 15.0 per cent but, based on current interest rate assumptions, we now expect to deliver this in 2018.

Balance sheet

	At 31 Dec 2015	At 31 Dec 2014	Change %

Loans and advances to customers1	£455bn	£456bn	–
Customer deposits1	£418bn	£423bn	(1)
Wholesale funding	£120bn	£116bn	3
Wholesale funding <1 year maturity	£38bn	£41bn	(8)
Of which money-market funding <1 year maturity2	£22bn	£19bn	13
Loan to deposit ratio1	109%	108%	1pp
Liquidity coverage ratio – eligible assets	£123bn		

1 Comparatives restated to exclude TSB. As at 31 December 2014, loans and advances to customers including TSB were £478 billion, customer deposits including TSB were £447 billion and the loan to deposit ratio was 107 per cent.
2 Excludes balances relating to margins of £2.5 billion (31 December 2014: £2.8 billion) and settlement accounts of £1.4 billion (31 December 2014: £1.4 billion).

Total loans and advances to customers were £455 billion compared with £456 billion (excluding TSB) at 31 December 2014. Mortgage lending increased by 1 per cent, slightly below the market growth of 2.5 per cent, reflecting our focus on protecting margin in a highly competitive low growth environment. UK loan growth in Consumer Finance was strong at 17 per cent and SME lending growth was 5 per cent, both outperforming the market. This growth was offset by further reductions in run-off and other lending portfolios which are closed to new business.

Total deposits were £418 billion compared with £423 billion (excluding TSB) at 31 December 2014, largely due to a planned reduction in tactical deposits.

Wholesale funding was £120 billion, of which £38 billion, or 32 per cent, had a maturity of less than one year (31 December 2014: £41 billion, representing 35 per cent).

The Group's liquidity position remains strong, with liquidity coverage ratio (LCR) eligible assets of £123 billion. LCR eligible assets represent almost 5.7 times the Group's money-market funding with a maturity of less than one year and were in excess of total wholesale funding at 31 December 2015 thus providing a substantial buffer in the event of market dislocation. The Group's LCR ratio already exceeds regulatory requirements and is greater than 100 per cent.

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Capital ratios and risk-weighted assets

	At 31 Dec 2015	At 31 Dec 2014	Change %
Pro forma common equity tier 1 ratio1,2	13.0%	12.8%	0.2pp
Common equity tier 1 ratio1	12.8%	12.8%	–
Transitional tier 1 capital ratio	16.4%	16.5%	(0.1)pp
Transitional total capital ratio	21.5%	22.0%	(0.5)pp
Pro forma leverage ratio2	4.8%	4.9%	(0.1)pp
Risk-weighted assets1	£223bn	£240bn	(7)
Shareholders' equity	£41bn	£43bn	(5)

1 There is minimal difference between the common equity tier 1 ratios and risk-weighted assets under both the fully loaded and transitional bases.
2 Including Insurance dividend relating to 2015, paid in 2016. Excluding the Insurance dividend the leverage ratio was the same at 4.8 per cent.

The Group further strengthened its capital position in 2015, with the pro forma CET1 ratio increasing to 13.9 per cent before taking account of dividends in respect of 2015 and 13.0 per cent after dividends. The pro forma ratio recognises the 2015 Insurance dividend paid in February 2016 following the implementation of Solvency II. The improvement in the pro forma CET1 ratio was driven by a combination of underlying profit and lower risk-weighted assets offset by charges relating to PPI and other conduct issues.

The Group continues to be strongly capital generative, generating, on a pro forma basis, 300 basis points of capital before dividends and PPI in 2015. This has benefited from a significant reduction in risk-weighted assets, which is unlikely to be repeated. Going forward, we now expect to generate around 200 basis points of capital annually pre dividends. This will enable us to support sustainable growth in the business and help Britain prosper whilst delivering sustainable returns for shareholders.

In addition to the internal stress testing activity undertaken in 2015, the Group participated in the UK-wide concurrent stress testing run by the Bank of England, comfortably exceeding both the capital and leverage minimum thresholds.

The remaining issued Enhanced Capital Notes (ECNs) were not taken into account for the purposes of core capital in the PRA stress tests and the Group has determined that a Capital Disqualification Event (CDE), as defined in the conditions of the ECNs, has occurred. This 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 and subsequent to completion of such offers, the Group has announced that it will redeem those ECNs not validly tendered using the Regulatory Call Right. The Tender Offers and process for redemption of the ECNs not validly tendered by the noteholders will be completed before the end of the first quarter with an estimated cost of £0.7 billion.

The Group is aware that the Trustee has been granted leave by the Supreme Court to appeal the Court of Appeal decision. In the event that the Supreme Court were to determine that a CDE had not occurred, the Group would compensate fairly the holders of the ECNs whose securities are redeemed using the Regulatory Call Right for losses suffered as a result of early redemption.

Risk-weighted assets reduced by 7 per cent, or £17 billion to £223 billion (31 December 2014: £240 billion), primarily driven by the sale of TSB, other disposals in the run-off business and continued improvements in credit quality, partly offset by targeted lending growth.

The Group's pro forma leverage ratio, after taking account of dividends relating to 2015, reduced to 4.8 per cent (31 December 2014: 4.9 per cent) reflecting the reduction in tier 1 capital offset by the reduction in balance sheet assets arising, in part, from the sale of TSB.

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Dividend

The Board has recommended a final ordinary dividend of 1.5 pence per share, together with a capital distribution in the form of a special dividend of 0.5 pence per share. This is in addition to the interim ordinary dividend of 0.75 pence per share (2014: nil) that was announced at our 2015 half-year results.

The total ordinary dividend per share for 2015 of 2.25 pence has increased from 0.75 pence in 2014, in line with our progressive and sustainable dividend policy, and we continue to expect ordinary dividends to increase over the medium term with a dividend payout ratio of at least 50 per cent of sustainable earnings.

The special dividend of 0.5 pence per share represents the distribution of surplus capital over and above the Board's view of the current level of capital required to grow the business, meet regulatory requirements and cover uncertainties. This level is consistent with our capital requirement guidance of around 12 per cent plus an amount broadly equivalent to a further year's ordinary dividend.

The amount of capital we believe is appropriate to hold is likely to vary from time to time depending on circumstances and the Board will give due consideration, subject to the situation at the time, to the distribution of any surplus capital through the use of special dividends or share buy backs. By its nature, there can be no guarantee that this level of special dividend or any surplus capital distribution will be appropriate in future years.

Conclusion

The Group has delivered a robust underlying performance in 2015, driven by higher income, lower operating costs and reduced impairment and further improved underlying returns. Statutory profit before tax of £1.6 billion was lower, due to the impact of PPI, where an additional charge of £2.1 billion was taken in the fourth quarter largely to reflect our interpretation of the impact of the proposals contained within the FCA consultation paper regarding a potential time bar and the Plevin case.

As a result of the strategic and financial progress, the Board has recommended the payment of an increased ordinary dividend and a special dividend and we are enhancing our guidance for the 2016 net interest margin and annual capital generation. Although the delivery of the cost:income ratio and return on required equity guidance has been deferred, we remain confident in the Group's prospects and its ability to generate capital and believe the Group is well positioned to deliver sustainable growth and superior returns.

George Culmer
Chief Financial Officer

UNDERLYING BASIS – SEGMENTAL ANALYSIS

2015	Retail	Commercial Banking	Consumer Finance	Insurance	Run-off and Central items	Group
	£m	£m	£m	£m	£m	£m
Net interest income	7,397	2,510	1,287	(163)	451	11,482
Other income	1,122	2,066	1,358	1,827	(218)	6,155
Total income	8,519	4,576	2,645	1,664	233	17,637
Operating costs	(4,573)	(2,137)	(768)	(702)	(131)	(8,311)

Operating lease depreciation	–	(30)	(720)	–	(14)	(764)
Total costs	(4,573)	(2,167)	(1,488)	(702)	(145)	(9,075)
Impairment	(432)	22	(152)	–	(6)	(568)
Underlying profit excl. TSB	3,514	2,431	1,005	962	82	7,994
TSB						118
Underlying profit						8,112
Banking net interest margin	2.40%	2.93%	5.94%			2.63%
Average interest-earning banking assets	£315.8bn	£89.3bn	£22.4bn		£14.4bn	£441.9bn
Asset quality ratio	0.14%	0.01%	0.68%			0.14%
Return on risk-weighted assets	5.30%	2.33%	4.81%			3.53%
Return on assets	1.11%	1.16%	3.73%			0.98%

2014	Retail	Commercial Banking	Consumer Finance	Insurance	Run-off and Central items	Group
	£m	£m	£m	£m	£m	£m
Net interest income	7,079	2,480	1,290	(131)	257	10,975
Other income	1,212	1,956	1,364	1,725	210	6,467
Total income	8,291	4,436	2,654	1,594	467	17,442
Operating costs	(4,464)	(2,123)	(762)	(672)	(301)	(8,322)
Operating lease depreciation	–	(24)	(667)	–	(29)	(720)
Total costs	(4,464)	(2,147)	(1,429)	(672)	(330)	(9,042)
Impairment	(599)	(83)	(215)	–	(205)	(1,102)
Underlying profit (loss) excl. TSB	3,228	2,206	1,010	922	(68)	7,298
TSB						458
Underlying profit						7,756
Banking net interest margin	2.29%	2.67%	6.49%			2.40%
Average interest-earning banking assets	£317.6bn	£93.2bn	£20.5bn		£29.8bn	£461.1bn
Asset quality ratio	0.19%	0.08%	1.05%			0.23%
Return on risk-weighted assets	4.60%	1.92%	4.87%			3.02%
Return on assets	1.02%	0.94%	4.02%			0.92%

UNDERLYING BASIS – SEGMENTAL ANALYSIS

Loans and advances		Customer deposits		Total customer balances1		Risk-weighted assets	
31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec

	2015 £bn	2014 £bn	2015 £bn	2014 £bn	2015 £bn	2014 £bn	2015 £bn	2014 £bn
Retail	314.1	315.2	279.5	285.5	593.6	600.7	65.9	67.7
Commercial Banking	101.3	100.9	126.1	119.9	227.4	220.8	102.5	106.2
Consumer Finance	23.7	20.9	11.1	15.0	38.3	39.0	20.1	20.9
Run-off and Central items	16.1	19.0	1.6	2.1	17.7	21.1	23.6	28.9
Threshold risk-weighted assets							10.6	10.8
Group excl. TSB	455.2	456.0	418.3	422.5	877.0	881.6	222.7	234.5
TSB	–	21.6	–	24.6	–	46.2	–	5.2
Group	455.2	477.6	418.3	447.1	877.0	927.8	222.7	239.7

1 Total customer balances comprise loans and advances to customers, customer deposit balances and Consumer Finance operating lease assets.

UNDERLYING BASIS – QUARTERLY INFORMATION

	Quarter ended 31 Dec 2015 £m	Quarter ended 30 Sept 2015 £m	Quarter ended 30 June 2015 £m	Quarter ended 31 Mar 2015 £m	Quarter ended 31 Dec 2014 £m
Net interest income	2,904	2,863	2,886	2,829	2,730
Other income	1,528	1,374	1,661	1,592	1,513
Total income	4,432	4,237	4,547	4,421	4,243
Operating costs	(2,242)	(1,919)	(2,130)	(2,020)	(2,221)
Operating lease depreciation	(201)	(189)	(191)	(183)	(195)
Total costs	(2,443)	(2,108)	(2,321)	(2,203)	(2,416)
Impairment	(232)	(157)	(21)	(158)	(159)
Underlying profit excluding TSB	1,757	1,972	2,205	2,060	1,668
TSB	–	–	–	118	114
Underlying profit	1,757	1,972	2,205	2,178	1,782
Asset sales and other items	239	(377)	(385)	(193)	(49)
Simplification costs	(101)	(37)	(6)	(26)	(316)
TSB costs	–	–	–	(745)	(144)
Conduct provisions	(2,402)	(600)	(1,835)	–	(1,125)
Statutory (loss) profit before tax	(507)	958	(21)	1,214	148
Banking net interest margin	2.64%	2.64%	2.65%	2.60%	2.42%
Average interest-earning banking assets	£439.2bn	£438.7bn	£443.2bn	£446.5bn	£453.9bn
Cost:income ratio	53.0%	47.4%	48.9%	47.7%	54.9%
Asset quality ratio	0.22%	0.15%	0.03%	0.14%	0.14%
	3.12%	3.47%	3.84%	3.73%	2.89%

Return on risk-weighted assets1					
Return on assets1	0.86%	0.95%	1.06%	1.05%	0.83%

1 Based on underlying profit before tax.

DIVISIONAL HIGHLIGHTS

RETAIL

Retail offers a broad range of financial service products, including current accounts, savings and mortgages, to UK personal customers, including Wealth and small business customers. It is also a distributor of insurance, and a range of long-term savings and investment products. Our aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value to customers, and by providing them with greater choice and flexibility. We will maintain our multi-brand and multi-channel strategy, and continue to simplify the business and provide more transparent products, helping to improve service levels and reduce conduct risks.

Progress against strategic initiatives

- Continued development of our digital capability. Our online user base has increased to over 11.5 million customers, with over 6.6 million active users on mobile and 2.9 million on tablets.
- Enhanced proposition for investment customers, becoming one of the first UK banks to offer investment advice through video conferencing and screen sharing.
- Invested in the branch network with 230 refurbishments in 2015, 70 per cent of branches are now Wi-Fi enabled with an additional 470 self-service devices, giving customers flexibility to choose how they do their banking.
- Continued to attract new customers through positive switching activity, particularly through the Halifax challenger brand which has attracted more than 1 in 5 customers switching in 2015.
- Continued product developments including improvements to the Club Lloyds proposition and consolidation of savings products reducing portfolio complexity and aligning rates and features to create a simpler, more transparent product range for customers.
- Leading the way on the government's drive for improved financial inclusion by providing over 1 in 4 basic bank accounts to disadvantaged and low income customers in 2015.
- Provided 1 in 4 mortgages to first-time buyers. Retail continues to be a leading supporter of the UK government's Help to Buy scheme, with lending of £3.5 billion under the mortgage guarantee element of the scheme since launch and the launch of a market-leading 'Help to Buy ISA' in December.
- Supported more than 1 in 5 new business start-ups. Improved our proposition to small business customers, launching a range of new to market products and services.

Financial performance

- Underlying profit increased 9 per cent to £3,514 million.
- Net interest income increased 4 per cent. Margin has increased 11 basis points to 2.40 per cent, driven by improved deposit margin and mix, more than offsetting reduced lending rates.
- Other income down 7 per cent driven by current account transaction related income and regulatory changes, in particular, impacting the Wealth business.
- Total costs increased 2 per cent to £4,573 million, reflecting continued business investment and simplification to improve customer experiences and enable staff numbers to be reduced by 7 per cent in 2015.
-

Impairment reduced 28 per cent to £432 million, reflecting continued low risk underwriting discipline, strong portfolio management and a favourable credit environment.

- Return on risk-weighted assets increased 70 basis points driven by the 9 per cent increase to underlying profit and a 3 per cent decrease in risk-weighted assets.
- Loans and advances to customers were £314.1 billion (31 December 2014: £315.2 billion) with the open mortgage book (excluding specialist mortgage book and Intelligent Finance) increasing 1 per cent slightly below market growth reflecting actions to protect the net interest margin in a highly competitive, low growth environment. This is offset by a reduction in the portfolios closed to new business.
- Customer deposits decreased 2 per cent to £279.5 billion, with more expensive tactical balances down 20 per cent to £30.2 billion, reflecting actions to protect interest margins.
- Risk-weighted assets decreased by £1.8 billion to £65.9 billion, driven by an improvement in the credit quality of assets and a modest contraction to lending balances, partly offset by an increased allocation of operational risk risk-weighted assets.

RETAIL (continued)

	2015 £m	2014 £m	Change %
Net interest income	7,397	7,079	4
Other income	1,122	1,212	(7)
Total income	8,519	8,291	3
Operating costs	(4,573)	(4,464)	(2)
Operating lease depreciation	–	–	
Total costs	(4,573)	(4,464)	(2)
Impairment	(432)	(599)	28
Underlying profit	3,514	3,228	9
Banking net interest margin	2.40%	2.29%	11bp
Average interest-earning banking assets	£315.8bn	£317.6bn	(1)
Asset quality ratio	0.14%	0.19%	(5)bp
Return on risk-weighted assets	5.30%	4.60%	70bp
Return on assets	1.11%	1.02%	9bp

Key balance sheet items	At 31 Dec 2015 £bn	At 31 Dec 2014 £bn	Change %
Loans and advances excluding closed portfolios	286.8	284.7	1
Closed portfolios	27.3	30.5	(10)
Loans and advances to customers	314.1	315.2	–
Relationship balances	249.3	247.9	1
Tactical balances	30.2	37.6	(20)
Customer deposits	279.5	285.5	(2)
Total customer balances	593.6	600.7	(1)

Risk-weighted assets	65.9	67.7	(3)

COMMERCIAL BANKING

Commercial Banking has been supporting British business for 250 years. It has a client-led, low risk, capital efficient strategy, helping UK-based clients and international clients with a link to the UK. Through our four customer facing divisions - SME, Mid Markets, Global Corporates and Financial Institutions – we provide clients with a range of products and services such as lending, transactional banking, working capital management, risk management, debt capital markets services, as well as access to private equity through Lloyds Development Capital.

Progress against strategic initiatives

- Continued to support the UK economy and Help Britain Prosper globally.
- Increased lending to SMEs by 5 per cent year-on-year, outperforming the market; remain the largest net lender to SMEs under the Funding for Lending Scheme (FLS), with over £6 billion of gross lending in 2015.
- Raised £540 million to date through our Environmental, Social and Governance (ESG) programmes to finance SMEs, healthcare providers and renewable energy projects in the most economically disadvantaged areas of the UK.
- Continued to attract new Mid Markets clients, increasing client advocacy and investing in relationship manager capability; supported British universities and housing associations in accessing £1 billion of bond financing.
- Exceeded our funding commitment by providing £1.4 billion of support to UK manufacturing and opened the Advanced Manufacturing Training Centre as part of a five year programme to help increase manufacturing skills in the UK.
- Strong income growth in Global Corporates with continued discipline in capital management; ranked first in Sterling capital markets financing for UK corporates in 2015. Enhanced our proposition to UK linked International clients doing business globally with strong growth in our UK linked US client franchise and the opening of a regional office in Singapore.
- Facilitated £11.3 billion of financing to support UK infrastructure projects, including the Thames Tideway Tunnel that is expected to create c.9,000 new jobs and Galloper Wind Farm that will provide clean energy to c.336,000 homes.
- Strong growth in our Financial Institution franchise benefiting from London as the world's leading financial centre and supporting the Financial Services industry in the UK. In 2015 we have helped our clients raise over £60 billion of funding.
- Continued to invest in next generation digital capabilities to transform clients' experiences, with the pilot underway on the new 'CB Online' transaction banking platform.
- Increased return on risk-weighted assets to 2.33 per cent, exceeding our 2013 strategic commitment of returns of greater than 2 per cent and on track to exceed 2.40 per cent by the end of 2017. This reflected income growth and cost management in challenging markets, with disciplined capital and credit management as recognised by the award of Credit Portfolio Manager of the Year by Risk Awards.
- Awarded Business Bank of the Year at the FD's excellence Awards for the 11th consecutive year.

Financial performance

- Underlying profit up 10 per cent to £2,431 million with broad based Core Client Franchise income growth and strong increases in Lending, Capital Markets and Financial Markets helped by substantial impairment reductions and disciplined cost management resulting in positive jaws.
- Net interest margin increased by 26 basis points due to higher lending margins and controlled deposit pricing.
- Other income increase driven by refinancing support provided to Global Corporate clients and increases in Mid Markets.

- Impairments release of £22 million reflects lower gross charges and a number of write-backs and releases.
- Increased lending to SME and Mid Markets companies reflecting the strength of our locally based relationship managers.
- Deposits up 5 per cent with growth in SME, Mid Markets and Global Corporates transactional deposits underpinned by continued investment in the transaction banking platform and the improved credit rating of Lloyds Bank, offset by the optimisation of Financial Institutions deposits.
- 3 per cent decrease in risk-weighted assets despite increased lending to SMEs and Mid Market clients, driven by continued optimisation initiatives, improved credit quality and reduced operational risk risk-weighted assets.

COMMERCIAL BANKING (continued)

	2015	2014	Change
	£m	£m	%
Net interest income	2,510	2,480	1
Other income	2,066	1,956	6
Total income	4,576	4,436	3
Operating costs	(2,137)	(2,123)	(1)
Operating lease depreciation	(30)	(24)	(25)
Total costs	(2,167)	(2,147)	(1)
Impairment release/(charge)	22	(83)	
Underlying profit	2,431	2,206	10
Banking net interest margin	2.93%	2.67%	26bp
Average interest-earning banking assets	£89.3bn	£93.2bn	(4)
Asset quality ratio	0.01%	0.08%	(7)bp
Return on risk-weighted assets	2.33%	1.92%	41bp
Return on assets	1.16%	0.94%	22bp

Key balance sheet items	At 31 Dec 2015	At 31 Dec 2014	Change
	£bn	£bn	%
SME	29.2	27.9	5
Other	72.1	73.0	(1)
Loans and advances to customers	101.3	100.9	–
Customer deposits	126.1	119.9	5
Total customer balances	227.4	220.8	3
Risk-weighted assets	102.5	106.2	(3)

CONSUMER FINANCE

Consumer Finance provides a range of products including motor finance, credit cards, and European mortgages and deposit taking, aiming to deliver sustainable growth within risk appetite. Motor Finance seeks to achieve this through improving customer service by building digital capability and continuing to create innovative propositions. Credit Cards aims to attract customers through better use of Group customer relationships and insight, underpinned by improvements to customer experience.

Progress against strategic initiatives

Investing in growth:

- Exceeded UK customer assets growth targets, whilst improving portfolio credit quality.
- Developed a broader and more competitive Cards product range, investing in digital reach and core capabilities to deliver new business and customer service improvements.
- Implemented enhanced application processes in Black Horse for motor dealers, leading to more efficient customer service; launched a new direct to consumer online secured car finance proposition to serve the needs of internet banking customers; and implemented further capabilities in the light commercial vehicle sector to improve the offering to Lex Autolease customers.

Focus on new business in a competitive market:

- Leading issuer of new credit cards in 2015, with a 22 per cent increase in average advances to new customers and a 20 per cent increase in the number of existing customers transferring balances in from competitors.
- Black Horse grew its market share through an 18 per cent increase in new lending, through improved dealer motor finance penetration and the Jaguar Land Rover (JLR) partnership.
- Lex Autolease fleet size up 7 per cent with leads from existing bank relationships up 13 per cent.

Growing balances in under-represented markets:

- Credit Cards balances increased 4 per cent compared with market growth of less than 2 per cent.
- Black Horse loans up 34 per cent outperforming a strong market and benefiting from the continued strength of the JLR relationship, while leading the industry in embedding significant Consumer Credit regulatory change.
- Lex Autolease operating lease assets grew 13 per cent driven by new SME customer activity.

Financial performance

- Underlying profit of £1,005 million with growth in better quality but lower margin lending resulting in broadly flat income but lower impairments. This was offset by increased cost of investment in growth initiatives.
- Net interest income in line with prior year at £1,287 million (2014: £1,290 million) with 9 per cent growth in average interest-earning banking assets offset by a lower net interest margin down 55 basis points to 5.94 per cent.
- Net interest margin was down due to the acquisition of lower risk but lower margin new business, an increased proportion of Cards interest free balance transfer balances as we grow the business and the impact of the planned reduction in deposits in line with Group’s balance sheet funding strategy. Despite this, return on risk-weighted assets was down only 6 basis points reflecting the portfolio quality.
- Other income of £1,358 million (2014: £1,364 million) with higher income from Lex Autolease fleet growth offset by the impact of lower interchange income in Credit Cards as a result of the recent EU ruling.
- Operating costs increased by 1 per cent, to £768 million as efficiency savings were more than offset by continued investment spend. Operating lease depreciation increased 8 per cent driven by Lex Autolease fleet growth.
- Impairment charges reduced by 29 per cent to £152 million, driven by the continued improvement in portfolio quality, supported by the sale of Credit Card recoveries assets; asset quality ratio improved by 37 basis points to 0.68 per cent.
- Net lending increased by 13 per cent driven by Black Horse and Credit Cards. UK Consumer Finance lending growth of 17 per cent year-on-year.
- Customer deposits reduced by 26 per cent, of which 4 per cent was due to foreign exchange movements, to £11.1 billion driven by the Group’s funding strategy.
- Risk-weighted assets down 4 per cent despite a 13 per cent increase in customer assets reflecting the continued improvement in portfolio quality and a reduced allocation of operational risk risk-weighted assets.

CONSUMER FINANCE (continued)

	2015 £m	2014 £m	Change %
Net interest income	1,287	1,290	–
Other income	1,358	1,364	–
Total income	2,645	2,654	–
Operating costs	(768)	(762)	(1)
Operating lease depreciation	(720)	(667)	(8)
Total costs	(1,488)	(1,429)	(4)
Impairment	(152)	(215)	29
Underlying profit	1,005	1,010	–
Banking net interest margin	5.94%	6.49%	(55)bp
Average interest-earning banking assets	£22.4bn	£20.5bn	9
Asset quality ratio	0.68%	1.05%	(37)bp
Impaired loans as % of closing advances	2.3%	3.4%	(1.1)pp
Return on risk-weighted assets	4.81%	4.87%	(6)bp
Return on assets	3.73%	4.02%	(29)bp

Key balance sheet items	At 31 Dec 2015 £bn	At 31 Dec 2014 £bn	Change %
Loans and advances to customers	23.7	20.9	13
Of which UK	18.7	16.0	17
Operating lease assets	3.5	3.1	13
Total customer assets	27.2	24.0	13
Of which UK	22.2	19.1	16
Customer deposits	11.1	15.0	(26)
Total customer balances	38.3	39.0	(2)
Risk-weighted assets	20.1	20.9	(4)

INSURANCE

The Insurance division is committed to providing a range of trusted and value for money products to meet the needs of our customers. Scottish Widows, in its 200th year, is helping almost six million customers protect what they value most and plan financially for the future. In addition, the general insurance business is protecting the homes, belongings, cars and businesses of over three million customers.

Progress against strategic initiatives

Against a backdrop of continued regulatory change, Insurance has made good progress against its strategic initiatives.

•

Increased Corporate Pensions funds under management by £1.4 billion to £28.4 billion through supporting a further 1,600 employers and 30,000 employees into auto-enrolment.

- Helped 215,000 customers to understand their additional retirement choices introduced by Pensions Freedoms in April through our dedicated retirement planning website and customer hub. Around 27,000 of these customers benefited from a personalised appointment.
- Launched a new non-advised pension drawdown product to support customers through the additional retirement choices introduced by Pensions Freedoms in April.
- Successfully delivered our first external bulk annuity transaction with a £0.4 billion deal in the fourth quarter, building on the £2.4 billion Scottish Widows With-Profits deal earlier in the year.
- Secured a further £1.4 billion of high yielding long-dated assets to improve investment returns for assets backing annuity liabilities, with over £5 billion acquired in the past four years through collaboration with the Commercial Banking Division.
- Launched a protection proposition into the Independent Financial Adviser (IFA) channel, complementing the protection offering to customers of the Bank, which is now available online through a quick and easy digital journey.
- Continued to grow Home Insurance sales through online channels, whilst developing an enhanced, more flexible, digitally enabled product expected to launch in the first half of 2016.
  - Helped more than 5,000 customers who were impacted by the floods and storms in December 2015.
- Received approval from the PRA for our Solvency II internal model, on which ongoing capital requirements will be based.
- Completed, through a Part VII transfer, the consolidation of eight UK Life companies into a single combined entity, significantly simplifying the business.

Financial performance

- Underlying profit increased by 4 per cent to £962 million, driven by increased new business from bulk annuity deals as well as the net benefit from a number of assumption updates. These have been partially offset by increased costs reflecting significant investment spend, adverse economics and reduced general insurance income.
- Building on the £1 billion of dividends remitted in 2014, the division paid a further £0.5 billion of dividends to the Group in February 2016.
- Operating cash generation reduced by £61 million, primarily reflecting reduced general insurance income and increased new business strain following our entry into the attractive bulk annuities market, partially offset by increased cash generation from the long-term investments strategy.
- LP&I sales (PVNBP) increased by 10 per cent in the year, boosted by £2,783 million from bulk annuity deals. Excluding this, PVNBP fell by 22 per cent, driven by significant regulatory and market change including increased auto enrolment driven sales in 2014.
- General Insurance Gross Written Premiums (GWP) decreased 4 per cent, reflecting the competitive market environment and the run-off of products closed to new customers.

Capital

- Our internal model for Solvency II was successfully implemented on 1 January 2016 with the capital position remaining robust. The estimated solvency ratio for the insurance business at 1 January 2016 was 148 per cent before allowing for dividends.

INSURANCE (continued)

Performance summary

	2015 £m	2014 £m	Change %
Net interest income	(163)	(131)	(24)

Other income	1,827	1,725	6
Total income	1,664	1,594	4
Total costs	(702)	(672)	(4)
Underlying profit	962	922	4
Operating cash generation	676	737	(8)
UK LP&I sales (PVNBP)1	9,460	8,601	10
General Insurance total GWP2	1,148	1,197	(4)
General Insurance combined ratio	83%	76%	7pp

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

Profit by product group

	2015						2014
	Pensions & investments £m	Protection & retirement £m	Bulk annuities £m	General Insurance £m	Other1 £m	Total £m	Total £m
New business income	168	33	125	–	–	326	268
Existing business income	630	122	–	–	28	780	882
Long-term investment strategy	–	73	102	–	–	175	160
Assumption changes and experience variances	(208)	240	30	–	(2)	60	(134)
General Insurance income net of claims	–	–	–	323	–	323	418
Total income	590	468	257	323	26	1,664	1,594
Total costs	(414)	(133)	(10)	(145)	–	(702)	(672)
Underlying profit 2015	176	335	247	178	26	962	922
Underlying profit 20142	236	344	–	274	68	922	

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

New business income increased by £58 million, with the primary driver being the new bulk annuity business. This was offset by a reduction in Protection income, following the removal of face-to-face advice in branch standalone protection sales and reduced annuity income following the introduction of Pensions Freedoms in 2015. Corporate pension income remained robust despite lower sales following the auto enrolment driven increases in 2014.

The fall in existing business income reflects a reduction in the expected rate of return used to calculate life and pensions income. The rate of return is largely set by reference to an average 15 year swap rate (2.57 per cent in 2015 and 3.48 per cent in 2014).

Long-term investment strategy includes the benefit from the successful acquisition of a further £1.4 billion of higher yielding assets to match long duration annuity liabilities.

INSURANCE (continued)

Assumption changes and experience variances include an adverse impact of £208 million in pensions and investments as a result of the strengthening of lapse assumptions on the pensions book to allow for the impact of the recent pension reforms. This was more than offset by the £240 million of benefit recognised within Protection and Retirement, primarily as a result of changes to assumptions on longevity. These longevity changes reflect both experience in the annuity portfolio and the adoption of a new industry model reflecting an updated view of future life expectancy.

General Insurance income net of claims has fallen by £95 million. This reflects the run-off of products closed to new customers, the impact of becoming a sole underwriter of the home insurance business (which has resulted in a short term reduction from the loss of commission recognised upfront) and the impact of adverse weather. The anticipated launch in early 2016 of a more flexible Home product is expected to lead to an improvement in general insurance sales going forward.

Costs are £30 million higher, reflecting significant investment spend as part of an ongoing programme of growth and simplification initiatives. In 2015 this included the launch of Protection to IFAs and our bulk annuities business alongside the Part VII transfer as well as a significant regulatory change agenda in particular to support pensions freedoms and transition to Solvency II. Excluding investment related expenditure, underlying costs fell by 3 per cent during 2015 reflecting ongoing operational efficiencies.

Operating cash generation

	2015						2014
	Pensions & investments	Protection & retirement	Bulk annuities	General Insurance	Other	Total	Total
	£m	£m	£m	£m	£m	£m	£m
Cash invested in new business	(178)	(30)	(129)	–	–	(337)	(288)
Cash generated from existing business	531	166	110	–	28	835	751
Cash generated from General Insurance	–	–	–	178	–	178	274
Operating cash generation1	353	136	(19)	178	28	676	737
Intangibles and other adjustments2	(177)	199	266	–	(2)	286	185
Underlying profit	176	335	247	178	26	962	922
Operating cash generation 2014	230	139	–	274	94	737	

1

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

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

The Insurance business generated £676 million of operating cash in 2015, £61 million lower than the prior year. The initial cash strain from writing new bulk annuity business, reduced volumes within General Insurance and a reduction in the expected rate of return used to calculate life and pensions income, drove the reduction in cash generated in the year. These impacts have been partly offset by £185 million of cash benefits recognised in respect of the acquisition of attractive higher yielding assets to match long duration annuity liabilities and a £48 million benefit from the sale of a reinsurance asset.

RUN-OFF AND CENTRAL ITEMS

RUN-OFF

	2015 £m	2014 £m
Net interest income	(88)	(116)
Other income	145	451
Total income	57	335
Operating costs	(150)	(279)
Operating lease depreciation	(14)	(29)
Total costs	(164)	(308)
Impairment	(8)	(203)
Underlying loss	(115)	(176)

	2015 £bn	2014 £bn
Loans and advances to customers	10.3	14.4
Total assets	12.2	16.9
Risk-weighted assets	10.2	16.8

- The reduction in income and costs largely reflects the impact of disposals made in 2014 including the sale of Scottish Widows Investment Partnership.
- The reduction in the impairment charge reflects the continued success in managing down the run-off portfolios.
- Run-off now represents 2 per cent of total loans and advances to customers and less than 5 per cent of the Group's risk-weighted assets.

CENTRAL ITEMS

	2015 £m	2014 £m

Total income	176	132
Total costs	19	(22)
Impairment release (charge)	2	(2)
Underlying profit	197	108

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

ADDITIONAL INFORMATION

1. Reconciliation between statutory and underlying basis results

The tables below set out the reconciliation from the statutory results to the underlying basis results, the principles of which are set out on the inside front cover.

2015	Lloyds Banking Group statutory £m	Removal of: Asset sales and other items1 £m	Simplification2 £m	TSB3 £m	Insurance gross up £m	PPI and other conduct provisions £m	Underlying basis £m
Net interest income	11,318	318	–	(192)	38	–	11,482
Other income, net of insurance claims	6,103	214	–	(36)	(126)	–	6,155
Total income	17,421	532	–	(228)	(88)	–	17,637
Operating expenses4	(15,387)	381	170	836	88	4,837	(9,075)
Impairment	(390)	(197)	–	19	–	–	(568)
TSB	–	–	–	118	–	–	118
Profit before tax	1,644	716	170	745	–	4,837	8,112

2014	Lloyds Banking Group statutory £m	Removal of: Asset sales and other items5 £m	Simplification6 £m	TSB7 £m	Insurance gross up £m	PPI and other conduct provisions £m	Underlying basis £m
Net interest income	10,660	619	–	(786)	482	–	10,975
Other income, net of insurance claims	5,739	1,460	22	(140)	(614)	–	6,467

Total income	16,399	2,079	22	(926)	(132)	–	17,442
Operating expenses4	(13,885)	(286)	944	928	132	3,125	(9,042)
Impairment	(752)	(448)	–	98	–	–	(1,102)
TSB	–	–	–	458	–	–	458
Profit before tax	1,762	1,345	966	558	–	3,125	7,756

1 Comprises the effects of asset sales (gain of £54 million), volatile items (loss of £208 million), liability management (loss of £28 million), the fair value unwind (loss of £192 million) and the amortisation of purchased intangibles (£342 million).
2 Comprises the redundancy costs related to phase II of the Simplification programme.
3 Comprises the underlying results of TSB, dual running and build costs and the charge related to the disposal of TSB.
4 On an underlying basis, this is described as total costs.
5 Comprises the effects of asset sales (gain of £138 million), volatile items (gain of £58 million), liability management (loss of £1,386 million), the past service pension credit (£710 million), the fair value unwind (loss of £529 million) and the amortisation of purchased intangibles (£336 million).
6 Comprises redundancy, IT and other business costs of implementation.
7 Comprises the underlying results of TSB, dual running and build costs.

ADDITIONAL INFORMATION (continued)

2. Banking net interest margin

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

	2015 £m	2014 £m
Banking net interest income – underlying basis	11,630	11,058
Insurance division	(163)	(131)
Other net interest income (including trading activity)	15	48
Group net interest income – underlying basis	11,482	10,975
Asset sales and other items	(318)	(619)
TSB	192	786
Insurance gross up	(38)	(482)
Group net interest income – statutory	11,318	10,660

Average interest-earning banking assets are gross of impairment allowances and comprise solely of customer and product balances in the banking businesses on which interest is earned or paid. Non-banking assets largely relate to fee based loans and advances within Commercial Banking and loans sold by Commercial Banking and Retail to Insurance to back annuitant liabilities. Other non-banking includes pooling arrangements where interest is received from or paid to customers based on the net of their lending and deposit balances but these balances cannot be netted on the Group balance sheet.

	Quarter	Quarter	Quarter	Quarter

	ended 31 Dec 2015 £bn	ended 30 Sept 2015 £bn	ended 30 Jun 2015 £bn	ended 31 Mar 2015 £bn
Net loans and advances to customers	455.2	455.0	452.3	455.1
Impairment provision and fair value adjustments	4.4	4.9	7.0	7.4
Non-banking items:				
Fee based loans and advances	(10.1)	(8.0)	(7.2)	(6.4)
Sale of assets to Insurance	(5.7)	(5.3)	(5.2)	(4.7)
Other non-banking	(5.6)	(6.2)	(5.5)	(6.6)
Gross loans and advances (banking)	438.2	440.4	441.4	444.8
Averaging	1.0	(1.7)	1.8	1.7
Average interest-earning banking assets	439.2	438.7	443.2	446.5
Continuing businesses	427.8	425.5	427.4	429.5
Run-off	11.4	13.2	15.8	17.0
	439.2	438.7	443.2	446.5
Average interest-earning banking assets (year to date)	441.9	442.8	444.8	446.5

ADDITIONAL INFORMATION (continued)

3. Other operating income

	2015 £ million	2014 £ million	Change %
Fees and commissions:			
Retail	876	998	(12)
Commercial Banking	1,562	1,605	(3)
Consumer Finance	247	308	(20)
Central items	(81)	(132)	39
	2,604	2,779	(6)
Insurance income[1]:			
Life and pensions	1,367	1,368	–
Bulk annuities	257	–	
General insurance	462	576	(20)
	2,086	1,944	7
Operating lease income	1,130	1,071	6
Other	190	222	(14)
Other income excluding run-off	6,010	6,016	–
Run-off	145	451	(68)
Other income	6,155	6,467	(5)

1 Includes insurance income reported by Retail and Consumer Finance.

4. Volatility arising in insurance businesses

The Group's statutory result before tax included negative volatility totalling £105 million compared to negative volatility of £228 million in 2014.

Volatility comprises the following:

	2015 £m	2014 £m
Insurance volatility	(303)	(219)
Policyholder interests volatility	87	17
Total volatility	(216)	(202)
Insurance hedging arrangements	111	(26)
Total	(105)	(228)

Insurance volatility

The Group's insurance business has policyholder liabilities that are supported by substantial holdings of investments. IFRS requires that the changes in both the value of the liabilities and investments are reflected within the income statement. The value of the liabilities does not move exactly in line with changes in the value of the investments. As the investments are substantial, movements in their value can have a significant impact on the profitability of the Group. Management believes that it is appropriate to disclose the division's results on the basis of an expected return in addition to results based on the actual return. The impact of the actual return on these investments differing from the expected return is included within insurance volatility.

ADDITIONAL INFORMATION (continued)

The expected gross investment returns used to determine the underlying profit of the business are based on prevailing market rates and published research into historical investment return differentials for the range of assets held. Where appropriate, rates are updated throughout the year to reflect changing market conditions and changes in the asset mix. In 2015 the basis for calculating these expected returns has been enhanced to reflect an average of the 15 year swap rate over the preceding 12 months and rates were updated throughout the year to reflect changing market conditions. The negative insurance volatility during 2015 of £303 million primarily reflects lower equity returns than expected, widening credit spreads and low returns on cash investments.

Policyholder interests volatility

Accounting standards require that tax on policyholder investment returns should be included in the Group's tax charge rather than being offset against the related income. The result is, therefore, to either increase or decrease profit before tax with a related change in the tax charge. Timing and measurement differences exist between provisions for tax and charges made to policyholders. Consistent with the expected approach taken in respect of insurance volatility, differences in the expected levels of the policyholder tax provision and policyholder charges are adjusted through policyholder interests volatility. In 2015, the statutory results before tax included a credit to other income which relates to policyholder interests volatility totalling £87 million (2014: £17 million) reflecting offsetting movements in equity, bond and gilt returns.

Insurance hedging arrangements

The Group purchased put option contracts in 2015 to protect against deterioration in equity market conditions and the consequent negative impact on the value of in-force business on the Group balance sheet. These were financed by selling some upside potential from equity market movements. A gain of £111 million was recognised in relation to

these contracts in 2015.

5. Return on required equity

Underlying return on required equity is the underlying profit after tax at the standard UK corporation tax rate less the post-tax profit attributable to other equity holders divided by the average required equity for the period. Required equity comprises shareholders' equity and non-controlling interests and is the amount required to achieve a common equity tier 1 ratio of 12.0 per cent after allowing for regulatory adjustments and deductions. An adjustment is also made to reflect the notional earnings on any excess or shortfall in equity.

Statutory return on required equity is the statutory profit after tax less the post-tax profit attributable to other equity holders divided by the average required equity for the period. An adjustment is also made to reflect the notional earnings on any excess or shortfall in equity.

6. Number of employees (full-time equivalent)

	2015	2014
Retail	33,304	35,854
Commercial Banking	6,457	6,133
Consumer Finance	3,480	3,484
Insurance	1,885	2,015
Group operations and other	32,439	31,663
TSB	–	7,685
	77,565	86,834
Agency staff, interns and scholar	(2,259)	(2,344)
Total number of employees	75,306	84,490
Total number of employees excluding TSB	75,306	76,978

ADDITIONAL INFORMATION (continued)

7. Remuneration

Our approach to reward is intended to provide a clear link between remuneration and delivery of the Group's key strategic objectives, supporting the aim of becoming the best bank for customers, and through that, for shareholders.

Despite better underlying financial results in 2015, the Group's total bonus outcome has reduced year-on-year to £353.7 million (from £369.5m in 2014). This includes a 26 per cent collective performance adjustment applied to the Group's total bonus outcome, reflecting additional conduct-related provisions which impacted negatively on profitability and shareholder returns. As previously announced, £30 million was deducted to recognise the impact of failing to deliver the highest levels of customer service in PPI complaint handling. As a percentage of pre-bonus underlying profit, the total bonus outcome has decreased to 4.2 per cent.

RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

The most significant risks we face which could impact the delivery of our strategy, together with key mitigating actions, are outlined below including newly added:

- Insurance risk, reflecting that we are increasing our exposure to longevity risk, following our entry into the bulk annuity market in 2015 and;
- Governance risk, given increasing societal and regulatory focus on governance arrangements.

Credit risk – The risk that customers to whom we have lent money or other counterparties with whom we have contracted, fail to meet their financial obligations, resulting in loss to the Group. Adverse changes in the economic and market environment we operate in or the credit quality and/or behaviour of our customers and counterparties could reduce the value of our assets and potentially increase our write downs and allowances for impairment losses, adversely impacting profitability.

Mitigating actions

- Credit policy, incorporating prudent lending criteria, aligned with Board approved risk appetite, to effectively manage risk.
- Robust risk assessment and credit sanctioning, with clearly defined levels of authority to ensure we lend appropriately and responsibly.
- Extensive and thorough credit processes and controls to ensure effective risk identification, management and oversight.
- Effective, well-established governance process supported by independent credit risk assurance.
- Early identification of signs of stress leading to prompt action in engaging the customer.

Regulatory and legal risk – The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate can have a significant impact on the Group’s operations, business prospects, structure, costs and/or capital requirements and ability to enforce contractual obligations.

Mitigating actions

- The Legal, Regulatory and Mandatory Change Committee ensures we develop plans for delivery of all legal and regulatory changes and tracks their progress. Groupwide projects implemented to address significant impacts.
- Continued investment in people, processes, training and IT to assess impact and help meet our legal and regulatory commitments.
- Engage with regulatory authorities and relevant industry bodies on forthcoming regulatory changes, market reviews and Competition and Markets Authority investigations.

Conduct risk – Conduct risk can arise from a number of areas including selling products to customers which do not meet their needs; failing to deal with customers’ complaints effectively; not meeting customers’ 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 processes and outcome testing supported by conduct management information.
- Clear customer accountabilities for colleagues, with rewards driven by customer-centric metrics.
- Learning from past mistakes, through root cause analysis of crystallised issues.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

Mitigating actions

- Continual review of our IT environment to ensure that systems and processes can effectively support the delivery of services to customers.
- Addressing the observations and associated resilience risks raised in the Independent IT Resilience Review (2013), with independent verification of progress on an annual basis.
- Investing in enhanced cyber controls to protect against external threats to the confidentiality or integrity of electronic data, or the availability of systems. Responding to findings from third party industry testing.

People risk – Key people risks include the risk that the Group fails to lead responsibly in an increasingly competitive marketplace, particularly with the introduction of the Senior Managers and Certification Regime (SM&CR) in 2016. This may dissuade capable individuals from taking up senior positions within the industry.

Mitigating actions

- Focused action on strategy to attract, retain and develop high calibre people.
- Maintain compliance with legal and regulatory requirements relating to SM&CR, embedding compliant and appropriate colleague behaviours.
- Continued focus on our culture, delivering initiatives which reinforce behaviours to generate the best long-term outcomes for customers and colleagues.
- Maintain organisational people capability and capacity levels in response to increasing volumes of organisational and external market changes.

Insurance risk – Key insurance risks within the Insurance business are longevity, persistency and property insurance. Longevity risk is expected to increase with the 2015 entry into the bulk annuity market. Longevity is also the key insurance risk in the Group's Defined Benefit Schemes.

Mitigating actions

- Insurance processes on underwriting, claims management, pricing and product design seek to control exposure to these risks. A team of longevity and bulk pricing experts has been built to support the new bulk annuity proposition.
- The merits of longevity risk transfer and hedging solutions are regularly reviewed for both the Insurance business and the Group's Defined Benefit Pension Schemes.
- Property insurance exposure to accumulations of risk and possible catastrophes is mitigated by a broad reinsurance programme.

Capital risk – The risk that we have a sub-optimal amount or quality of capital or that capital is inefficiently deployed across the Group.

Mitigating actions

- A comprehensive capital management framework that sets and monitors capital risk appetite using a number of key metrics.
- Close monitoring of capital and leverage ratios to ensure we meet current and future regulatory requirements.
- Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy under various adverse scenarios.
- Accumulation of retained profits and managing dividend policy appropriately.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Funding and liquidity risk – The risk that we have insufficient financial resources to meet our commitments as they fall due, or can only secure them at excessive cost.

Mitigating actions

- Holding a large portfolio of unencumbered LCR eligible liquid assets to meet cash and collateral outflows and regulatory requirements and maintaining a further large pool of secondary assets that can be used to access central bank liquidity facilities.
- Undertaking daily monitoring against a number of market and Group-specific early warning indicators and regular stress tests.
- Maintaining a contingency funding plan detailing management actions and strategies available in stressed conditions.

Governance risk – Against a background of increased regulatory focus on governance and risk management the most significant challenges arise from the SM&CR in force from March 2016 and the requirement to improve the resolvability of the Group and to ring-fence core UK financial services and activities from January 2019.

Mitigating actions

- Our response to SM&CR is managed through a programme with work streams addressing each of the major components.
- A programme is in place to address the requirements of ring-fencing and resolution and the Group is in close and regular contact with regulators to develop the plans for our anticipated operating and legal structures.
- Our aim is to ensure that evolving risk and governance arrangements continue to be appropriate across the range of business in the Group in order to comply with regulatory objectives.

Market risk – The risk that our capital or earnings profile is affected by adverse market rates, in particular interest rates and credit spreads in the Banking business and equity and credit spreads in the Insurance business and the Group's Defined Benefit Pension Schemes.

Mitigating actions

- Structural hedge programmes have been implemented to manage liability margins and margin compression, and the Group's exposure to Bank Base Rate.
- Equity and credit spread risks are inherent within Insurance products and are closely monitored to ensure they remain within risk appetite. Where appropriate asset liability matching is undertaken to mitigate risk.
- The allocation to credit assets has been increased and equity holdings reduced within the Group's Defined Benefit Pension Schemes. A hedging programme is also in place to minimise exposure to nominal rates/inflation.
- Stress and scenario testing of Group risk exposures.

CREDIT RISK PORTFOLIO

Significant reduction in impairments and impaired assets

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The impairment charge decreased by 48 per cent to £568 million in 2015 compared to £1,102 million in 2014. The impairment charge is lower across all divisions benefiting from provision releases but at lower levels than seen during 2014.

- The reduction reflects lower levels of new impairment as a result of effective risk management, a favourable credit environment, improving UK economic conditions and continued low interest rates.
- The impairment charge as a percentage of average loans and advances to customers improved to 0.14 per cent compared to 0.23 per cent during 2014.
- At the Group Strategic Update in October 2014, we outlined that, although it would be lower between 2015 and 2017, we expect the Group asset quality ratio to be c.40 basis points through the economic cycle.
- In 2016, the Group expects to benefit from its continued disciplined approach to the management of credit and the resilient UK economy. Write-backs and provision releases, however, are expected to be at a lower level and as a result, the Group expects the asset quality ratio for the 2016 full year to be around 20 basis points.
- Impaired loans as a percentage of closing loans and advances reduced to 2.1 per cent at 31 December 2015, from 2.9 per cent at 31 December 2014 driven by reductions within the continuing and run-off portfolios, including the sale of Irish commercial loans during the third quarter. Provisions as a percentage of impaired loans reduced from 56.4 per cent to 46.1 per cent reflecting the disposal of highly covered assets during the year.
- Retail Division impairment provisions as a percentage of impaired loans have increased to 40.4 per cent from 38.8 per cent at 31 December 2014, with Secured increasing by 0.5 percentage points to 37.5 per cent. Consumer Finance Division impairment provisions as a percentage of impaired loans have increased to 72.8 per cent from 70.5 per cent at 31 December 2014, with Credit Cards increasing by 5.3 percentage points to 81.8 per cent and Asset Finance UK decreasing by 2.8 percentage points to 67.2 per cent.

Low risk culture and prudent risk appetite

- The Group is delivering sustainable lending growth by maintaining its lower risk origination discipline and underwriting standards despite terms and conditions in some of the Group's markets being impacted by increased competition. The overall quality of the portfolio has improved over the last 12 months.
- Credit performance of the UK Retail secured portfolio has been good, with improvements in loan to values (LTVs), arrears, impaired loans and impairment charge on both Mainstream and Buy-to-let portfolios. Loans and advances to mainstream customers were broadly flat during the year at £227.3 billion with the Buy-to-let portfolio growing by 4 per cent to £55.6 billion. The closed Specialist portfolio has continued to run-off, reducing by 10 per cent to £19.5 billion.
- The Group's UK Direct Real Estate gross lending (defined internally as exposure which is directly supported by cash flows from property activities) at 31 December 2015 in Commercial Banking, Wealth (within Retail division) and Run-off divisions was £19.5 billion (31 December 2014: gross £21.6 billion). The portfolio continues to reduce significantly, and the higher risk Run-off element of the book has reduced from gross £3.3 billion to gross £1.1 billion during 2015. The remaining gross lending of £18.4 billion (31 December 2014: £18.3 billion) is the lower risk element in Commercial Banking and Wealth, where the Group continues to write new business within conservative risk appetite parameters.
- Our Commercial Banking portfolios continue to benefit from our robust focus on credit origination and our through the cycle risk appetite.
- Sector concentrations within the lending portfolios are closely monitored and controlled, with mitigating actions taken. Sector and product caps limit exposure to certain higher risk sectors and asset classes.
- The Group's extensive and thorough credit processes and controls ensure effective risk management, including early identification and management of potential concern customers and counterparties.

Re-shaping of the Group is substantially complete

- The run-off portfolio has materially reduced through de-risking and the strategic desire to exit the residual portfolio still remains. There was a 38 per cent reduction in gross loans and advances in 2015 to £11,422 million (31 December 2014: £18,316 million).
- Run-off net external assets have reduced from £16,857 million to £12,154 million during 2015. The portfolio now represents only 2.3 per cent of the overall Group's loans and advances (31 December 2014: 3.0 per cent).

CREDIT RISK PORTFOLIO (continued)

Impairment charge by division

	2015	2014	Change
	£m	£m	%
Retail:			
Secured	98	281	65
Loans and overdrafts	311	279	(11)
Other	23	39	41
	432	599	28
Commercial Banking:			
SME	(22)	15	
Other	–	68	
	(22)	83	
Consumer Finance:			
Credit Cards	129	186	31
Asset Finance UK1	22	30	27
Asset Finance Europe2	1	(1)	
	152	215	29
Run-off:			
Ireland retail	(5)	(6)	(17)
Ireland corporate and CRE	72	314	77
Corporate real estate and other corporate	21	(28)	
Specialist finance	(45)	22	
Other	(35)	(99)	(65)
	8	203	96
Central items	(2)	2	
Total impairment charge	568	1,102	48
Impairment charge as a % of average advances	0.14%	0.23%	(9)bps

1 Asset Finance UK comprises the UK motor finance portfolios, principally Black Horse and Lex Autolease.

2 Asset Finance Europe comprises Netherlands mortgages and German Consumer Finance products.

Total impairment charge comprises:

	2015	2014	Change
	£m	£m	%
Loans and advances to customers	621	1,085	43
Debt securities classified as loans and receivables	(2)	2	–
Available-for-sale financial assets	4	5	20
Other credit risk provisions	(55)	10	–
Total impairment charge	568	1,102	48

CREDIT RISK PORTFOLIO (continued)

Group impaired loans and provisions

At 31 December 2015	Loans and advances to customers £m	Impaired Loans £m	Impaired loans as % of closing advances %	Impairment provisions1 £m	Impairment provision as % of impaired loans2 %
Retail:					
Secured	302,413	3,818	1.3	1,431	37.5
Loans and overdrafts	9,917	578	5.8	197	81.1
Other	3,706	98	2.6	42	60.0
	316,036	4,494	1.4	1,670	40.4
Commercial Banking:					
SME	29,393	1,149	3.9	213	18.5
Other	73,042	1,379	1.9	874	63.4
	102,435	2,528	2.5	1,087	43.0
Consumer Finance:					
Credit Cards	9,425	366	3.9	153	81.8
Asset Finance UK3	9,582	134	1.4	90	67.2
Asset Finance Europe4	4,931	43	0.9	22	51.2
	23,938	543	2.3	265	72.8
Run-off:					
Ireland retail	4,040	132	3.3	120	90.9
Ireland corporate and CRE	37	5	13.5	–	
Corporate real estate and other corporate	1,873	1,410	75.3	745	52.8
Specialist finance	4,190	361	8.6	189	52.4
Other	1,282	117	9.1	96	82.1
	11,422	2,025	17.7	1,150	56.8
Reverse repos and other items5	5,798				
Total gross lending	459,629	9,590	2.1	4,172	46.1
Impairment provisions	(4,172)				
Fair value adjustments6	(282)				
Total Group	455,175				

1 Impairment provisions include collective unidentified impairment provisions.
2 Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries
(£335 million in Retail loans and overdrafts, £28 million in Retail other and £179 million in Consumer Finance credit cards).
3 Asset Finance UK comprises the UK motor finance portfolios, principally Black Horse and Lex Autolease.
4 Asset Finance Europe comprises Netherlands mortgages and German Consumer Finance products.
5 Includes £5.7 billion of lower risk loans sold by Commercial Banking and Retail to Insurance to back annuitant liabilities.
6 The fair value adjustments relating to loans and advances were made on the acquisition of HBOS to reflect the fair value of the acquired assets and took into account both the expected losses and market liquidity at the date of acquisition. The unwind relating to future

impairment losses requires management judgement to assess whether the losses incurred in the current period were expected at the date of the acquisition and assessing whether the remaining losses expected at date of the acquisition will still be incurred. The element relating to market liquidity unwinds to the income statement over the estimated expected lives of the related assets, although if an asset is written-off or suffers previously unexpected impairment then this element of the fair value will no longer be considered a timing difference (liquidity) but permanent (impairment). The fair value unwind in respect of impairment losses incurred was £97 million for the year ended 31 December 2015 (31 December 2014: £251 million). The fair value unwind in respect of loans and advances is expected to continue to decrease in future years as fixed-rate periods on mortgages expire, loans are repaid or
written-off, and will reduce to zero over time.

CREDIT RISK PORTFOLIO (continued)

Group impaired loans and provisions (continued)

At 31 December 2014	Loans and advances to customers £m	Impaired Loans £m	Impaired loans as % of closing advances %	Impairment provisions1 £m	Impairment provision as % of impaired loans2 %
Retail:					
Secured	303,121	3,911	1.3	1,446	37.0
Loans and overdrafts	10,395	695	6.7	220	85.3
Other	3,831	321	8.4	68	23.1
	317,347	4,927	1.6	1,734	38.8
Commercial Banking:					
SME	28,256	1,546	5.5	398	25.7
Other	74,203	1,695	2.3	1,196	70.6
	102,459	3,241	3.2	1,594	49.2
Consumer Finance:					
Credit Cards	9,119	499	5.5	166	76.5
Asset Finance UK3	7,204	160	2.2	112	70.0
Asset Finance Europe4	4,950	61	1.2	31	50.8
	21,273	720	3.4	309	70.5
Run-off:					
Ireland retail	4,464	120	2.7	141	117.5
Ireland corporate and CRE	3,436	3,052	88.8	2,480	81.3
Corporate real estate and other corporate	3,947	1,548	39.2	911	58.9
Specialist finance	4,835	364	7.5	254	69.8
Other	1,634	131	8.0	141	107.6
	18,316	5,215	28.5	3,927	75.3
TSB	21,729	205	0.9	88	42.9
Reverse repos and other items5	9,635				

Total gross lending	490,759	14,308	2.9	7,652	56.4
Impairment provisions	(7,652)				
Fair value adjustments	(403)				
Total Group	482,704				

1 Impairment provisions include collective unidentified impairment provisions.
2 Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries
(£437 million in Retail loans and overdrafts, £26 million in Retail other and £282 million in Consumer Finance credit cards).
3 Asset Finance UK comprises the UK motor finance portfolios, principally Black Horse and Lex Autolease.
4 Asset Finance Europe comprises Netherlands mortgages and German Consumer Finance products.
5 Includes £4.4 billion of lower risk loans sold by Commercial Banking to Insurance to back annuitant liabilities.

CREDIT RISK PORTFOLIO (continued)

Retail

- The impairment charge was £432 million in 2015, a decrease of 28 per cent against 2014. The decrease reflects continued low risk underwriting discipline, strong portfolio management and a favourable credit environment with low unemployment, increasing house prices and continued low interest rates.
- The impairment charge, as a percentage of average loans and advances to customers, improved to 14 basis points in 2015 from 19 basis points in 2014.
- Impaired loans decreased by £433 million in 2015 to £4,494 million which represented 1.4 per cent of closing loans and advances to customers at 31 December 2015 (31 December 2014: 1.6 per cent).
- Impairment coverage has increased to 40.4 per cent from 38.8 per cent at the end of 2014, with secured coverage increasing by 0.5 per cent to 37.5 per cent.

Secured
- The impairment charge was £98 million, a decrease of 65 per cent against 2014. The impairment charge as a percentage of average loans and advances to customers improved to 3 basis points from 9 basis points in 2014.
- Loans and advances to mainstream customers were broadly flat during the year at £227.3 billion with the Buy-to-let portfolio growing by 4 per cent to £55.6 billion. The closed specialist portfolio has continued to run-off, reducing by 10 per cent to £19.5 billion.
- Impaired loans reduced by £93 million to £3,818 million at 31 December 2015, with reductions in both the Mainstream and Buy-to-let portfolios. Impairment provisions as a percentage of impaired loans increased to 37.5 per cent from 37.0 per cent at 31 December 2014.
- The value of mortgages greater than three months in arrears (excluding repossessions) decreased by £439 million to £5,905 million at 31 December 2015 (31 December 2014: £6,344 million), with reductions in both the Mainstream and Buy-to-let portfolios.
- The average indexed LTV of the residential mortgage portfolio at 31 December 2015 decreased to 46.1 per cent compared with 49.2 per cent at 31 December 2014. The percentage of closing loans and advances with an indexed LTV in excess of 100 per cent decreased to 1.1 per cent at 31 December 2015, compared with 2.2 per cent at 31 December 2014.
- The average LTV for new residential mortgages written in 2015 was 64.7 per cent compared with 64.8 per cent for 2014.

Loans and overdrafts

- The impairment charge was £311 million, an increase of 11 per cent against 2014.
- The impairment charge as a percentage of average loans and advances to customers increased to 3.0 per cent in 2015 from 2.6 per cent in 2014.
- Impaired loans reduced by £117 million in 2015 to £578 million representing 5.8 per cent of closing loans and advances to customers, compared with 6.7 per cent at 31 December 2014.

Retail secured and unsecured loans and advances to customers

	At 31 Dec 2015 £m	At 31 Dec 2014 £m
Mainstream	227,267	228,176
Buy-to-let	55,598	53,322
Specialist[1]	19,548	21,623
	302,413	303,121
Loans	7,889	8,204
Overdrafts	2,028	2,191
Wealth	2,811	2,962
Retail Business Banking	895	869
	13,623	14,226
Total	316,036	317,347

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

CREDIT RISK PORTFOLIO (continued)

Retail (continued)

Retail mortgages greater than three months in arrears (excluding repossessions)

	Number of cases		Total mortgage accounts %		Value of loans[1]		Total mortgage balances %	
	2015 Cases	2014 Cases	2015 %	2014 %	2015 £m	2014 £m	2015 %	2014 %
Mainstream	34,850	37,849	1.6	1.7	3,803	4,102	1.7	1.8
Buy-to-let	5,021	5,077	1.0	1.1	626	658	1.1	1.2
Specialist	8,777	9,429	6.4	6.3	1,476	1,584	7.6	7.3
Total	48,648	52,355	1.7	1.8	5,905	6,344	2.0	2.1

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

The stock of repossessions decreased to 654 cases at 31 December 2015 compared to 1,740 cases at 31 December 2014.

Period end and average LTVs across the Retail mortgage portfolios

At 31 December 2015	Mainstream	Buy-to-let	Specialist	Total	Unimpaired	Impaired
	%	%	%	%	%	%
Less than 60%	52.2	45.4	43.7	50.4	50.7	30.9
60% to 70%	19.1	26.8	19.7	20.6	20.6	17.5
70% to 80%	15.5	15.0	15.5	15.4	15.4	16.9
80% to 90%	9.0	8.0	11.6	9.0	8.9	13.3
90% to 100%	3.2	3.9	5.5	3.5	3.4	9.5
Greater than 100%	1.0	0.9	4.0	1.1	1.0	11.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
Outstanding loan value (£m)	227,267	55,598	19,548	302,413	298,595	3,818
Average loan to value:1						
Stock of residential mortgages	43.6	56.3	53.3	46.1		
New residential lending	65.2	63.0	n/a	64.7		
Impaired mortgages	55.6	74.6	66.8	60.0		

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

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

CREDIT RISK PORTFOLIO (continued)

Commercial Banking

- There was a net impairment release of £22 million in 2015, compared to a charge of £83 million in 2014. This has been driven by lower levels of new impairment as a result of effective risk management, improving UK economic conditions and the continued low interest rate environment; as well as write-backs and provision releases, but at lower levels than seen during 2014.
- The credit quality of the portfolio and new business remains good. Surplus market liquidity continues to lead to some relaxation of credit conditions in the marketplace, although the Group remains disciplined within its low risk appetite approach.
- Impaired loans reduced by 22 per cent to £2,528 million at 31 December 2015 compared with 31 December 2014 (£3,241 million) and as a percentage of closing loans and advances reduced to 2.5 per cent from 3.2 per cent at 31 December 2014.
- Impairment provisions reduced to £1,087 million at 31 December 2015 (31 December 2014: £1,594 million) and includes collective unidentified impairment provisions of £229 million (31 December 2014: £338 million). Provisions as a percentage of impaired loans reduced from 49.2 per cent to 43.0 percent, predominantly due to the change in the mix of impaired assets during 2015, with newly impaired connections having lower coverage levels compared to the portfolio average. The decrease is also partly due to the reduction in the collective unidentified impairment provisions fund during the year as a result of improved conditions.
- The Group expects to benefit from its continued disciplined approach to the management of credit, and sustained UK economic growth. Nevertheless, market volatility and the uncertain global economic outlook such as the continued slowdown in Chinese economic growth and the fall in commodity prices may impact the Commercial portfolios.
- The Group manages and limits exposure to certain sectors and asset classes, and closely monitors credit quality, sector and single name concentrations. This together with our conservative through the cycle risk appetite approach, means our portfolios are well positioned.

SME

- The SME Banking portfolio continues to grow within prudent credit risk appetite parameters.
- Portfolio credit quality has remained stable or improved across all key metrics.
- There was a net impairment release of £22 million compared to a net charge of £15 million in 2014 with lower new impairment offset by write-backs and releases.

Other Commercial Banking

- Other Commercial Banking comprises £73,042 million of gross loans and advances to customers in Mid Markets, Global Corporates and Financial Institutions.
- In the Mid Markets portfolio, credit quality has remained stable. The portfolio is focused on UK businesses and dependent on the performance of the domestic economy and to some extent, the global economy. The oil and gas services element of the portfolio has been reviewed given ongoing low oil prices and this review has not revealed any material concerns with portfolio quality at this time.

CREDIT RISK PORTFOLIO (continued)

Commercial Banking (continued)

Other Commercial Banking (continued)

- The Global Corporate business continues to have a predominance of investment grade clients, primarily UK based. As a result of this profile, allied to our conservative risk appetite, our portfolio remains of good quality despite the current global economic headwinds particularly relating to the energy and mining sectors. We continue to monitor the portfolio closely to ensure there is no material deterioration.
- The real estate business within the Group's Mid Markets and Global Corporate portfolio is focused on clients operating in the UK commercial property market ranging in size from medium sized private real estate entities up to publicly listed property companies. The market for UK real estate has been buoyant and credit quality remains good with minimal impairments/stressed loans. All asset classes are attracting investment but, recognising this is a cyclical sector, appropriate caps are in place to control exposure and business propositions continue to be written in line with prudent risk appetite with conservative LTV, strong quality of income and proven management teams.
- Financial Institutions serves predominantly investment grade counterparties with whom relationships are either client focused or held to support the Group's funding, liquidity or general hedging requirements.
- Trading exposures continue to be predominantly short-term and/or collateralised with inter-bank activity mainly undertaken with acceptable investment grade counterparties.
- The Group continues to adopt a conservative stance across the Eurozone maintaining close portfolio scrutiny and oversight particularly given the current macro environment and horizon risks.

Commercial Banking UK Direct Real Estate LTV analysis

- The Group classifies Direct Real Estate as exposure which is directly supported by cash flows from property activities (as opposed to trading activities, such as hotels, care homes and housebuilders).
  - The Group manages its exposures to Direct Real Estate across a number of different coverage segments.
- Approximately 70 per cent of loans and advances to UK Direct Real Estate relate to commercial real estate with the remainder residential real estate.
- The Group makes use of a variety of methodologies to assess the value of property collateral where external valuations are not available. These include use of market indices, models and subject matter expert judgement.
  - The LTV profile of the UK Direct Real Estate portfolio in Commercial Banking continues to improve.

LTV – UK Direct Real Estate

	At 31 December 2015[1]				At 31 December 2014[1]			
	Unimpaired £m	Impaired £m	Total £m	%	Unimpaired £m	Impaired £m	Total £m	%
UK exposures >£5 m								
Less than 60%	4,989	72	5,061	63.7	3,985	52	4,037	47.8
60% to 70%	1,547	6	1,553	19.5	1,644	62	1,706	20.2
70% to 80%	610	13	623	7.9	964	17	981	11.6
80% to 100%	75	36	111	1.4	66	211	277	3.3
100% to 120%	–	8	8	0.1	–	–	–	–
120% to 140%	–	–	–	–	130	6	136	1.6
Greater than 140%	5	100	105	1.3	–	95	95	1.1
Unsecured	487	–	487	6.1	1,222	–	1,222	14.4
	7,713	235	7,948	100.0	8,011	443	8,454	100.0
UK exposures <£5 m	9,656	508	10,164		8,833	644	9,477	
Total	17,369	743	18,112		16,844	1,087	17,931	

1 Exposures exclude £0.3 billion (31 December 2014: £0.4 billion) of gross UK Direct Real Estate lending in Wealth (within Retail division) and £1.1 billion (31 December 2014: £3.3 billion) of UK Direct Real Estate lending in run-off. Also excludes social housing and

housebuilder lending.

CREDIT RISK PORTFOLIO (continued)

Consumer Finance

- The impairment charge reduced by 29 per cent to £152 million from £215 million in 2014. The reduction was driven by a continued underlying improvement in portfolio quality, supported by an increased level of write-backs from the sale of recoveries assets in the Credit Cards portfolio.
- Impairment provision as a percentage of impaired loans have increased to 72.8 per cent from 70.5 per cent at 31 December 2014, with Credit Cards increasing by 5.3 percentage points to 81.8 per cent and Asset Finance UK decreasing by 2.8 percentage points to 67.2 per cent.
    - Loans and advances increased by £2,665 million to £23,938 million during 2015. The growth was achieved in both the Asset Finance UK and Credit Cards portfolio with no relaxation in risk appetite and underwriting standards. Impaired loans decreased by £177 million in 2015 to £543 million which represented 2.3 per cent of closing loans and advances to customers (31 December 2014: 3.4 per cent).

Run-off

- With the exception of a small residual book (£37 million of which £5 million is impaired), the Irish Wholesale book (which contained the Commercial Real Estate portfolio), is now effectively exited following completion of the divestment announced on 30 July 2015. The Ireland Retail portfolio has reduced from £4,464 million at 31 December 2014 to £4,040 million at 31 December 2015.

- The Corporate real estate and other corporate portfolio has continued to reduce significantly ahead of expectations. Net loans and advances reduced by £1,908 million, from £3,036 million to £1,128 million for 2015.

- Net loans and advances for the Specialist finance asset based run-off portfolio stood at £4,001 million at 31 December 2015 (gross £4,190 million), and include Ship Finance, Aircraft Finance and Infrastructure, with around half of the remaining lending in the lower risk leasing sector. Including the reducing Treasury Asset legacy investment portfolio, and operating leases, total net external assets reduced to £5,552 million at 31 December 2015 (gross £5,742 million).

CREDIT RISK PORTFOLIO (continued)

Forbearance

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. Forbearance policies are disclosed in Note 54 of the Group's 2014 Annual Report and Accounts, pages 305 to 314.

Retail forbearance
At 31 December 2015, UK Secured loans and advances currently or recently subject to forbearance were 1.0 per cent (31 December 2014: 1.4 per cent) of total UK Secured loans and advances. The reduction in forbearance is due to the overall improvement of credit quality in the portfolio.

At 31 December 2015, Loans and Overdrafts loans and advances currently or recently subject to forbearance were 1.5 per cent (31 December 2014: 1.6 per cent) of total Loans and Overdrafts loans and advances.

	Total loans and advances which are forborne1		Total forborne loans and advances which are impaired1		Impairment provisions as % of loans and advances which are forborne1	
	At Dec 2015 £m	At Dec 2014 £m	At Dec 2015 £m	At Dec 2014 £m	At Dec 2015 %	At Dec 2014 %
UK Secured:						
Temporary forbearance arrangements						
Reduced contractual monthly payment	–	146	–	29	–	6.0
Reduced payment arrangements						