Invesco Ltd.
Form PRE 14A
March 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant þ Filed by a Party other than the Registrant ¨

Check the appropriate box:

þ Preliminary proxy statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-12

Invesco Ltd.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than Registrant)

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(3) Filing Party:

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Notice of Annual General Meeting

of Shareholders and

2014 Proxy Statement

Your vote is important

Please vote by using the internet, the telephone or by

signing, dating and returning the enclosed proxy card

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March [31], 2014

Invesco Ltd.

Two Peachtree Pointe

1555 Peachtree Street N.E.

Atlanta, Georgia 30309

Dear Fellow Shareholder,

You are cordially invited to attend the 2014 Annual General Meeting of Shareholders of Invesco Ltd., which will be held on Thursday, May 15, 2014 at 1:00 p.m., Eastern Time, in the Appalachians Room, 18th Floor, at Invesco s Global Headquarters, located at Two Peachtree Pointe, 1555 Peachtree Street N.E., Atlanta, Georgia 30309. Details of the business to be presented at the meeting can be found in the accompanying Notice of 2014 Annual General Meeting of Shareholders.

We are pleased to once again this year furnish proxy materials to our shareholders via the Internet. The e-proxy process expedites shareholders receipt of proxy materials and lowers the costs and reduces the environmental impact of our Annual General Meeting. On March [31], 2014, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials (Notice). The Notice contained instructions on how to access our 2014 Proxy Statement, Annual Report on Form 10-K and other soliciting materials and how to vote. The Notice also contains instructions on how you can request a paper copy of the Proxy Statement and Annual Report if you so desire.

We hope you are planning to attend the meeting. **Your vote is important and we encourage you to vote promptly. Whether or not you are able to attend the meeting in person, please follow the instructions contained in the Notice on how to vote via the Internet or via the toll-free telephone number, or request a paper proxy card to complete, sign and return by mail so that your shares may be voted.**

On behalf of the Board of Directors and the management of Invesco, I extend our appreciation for your continued support.

Yours sincerely,

Rex D. Adams

Chairman

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Invesco Ltd.

Two Peachtree Pointe

1555 Peachtree Street N.E.

Appalachians Room, 18th Floor

Atlanta, Georgia 30309

NOTICE OF 2014 ANNUAL GENERAL MEETING OF SHAREHOLDERS

Thursday, May 15, 2014

1:00 p.m.

The Annual General Meeting of Shareholders of Invesco Ltd. will be held at Invesco s Global Headquarters in the Appalachians Room, 18th Floor, located at Two Peachtree Pointe, 1555 Peachtree Street N.E., Atlanta, Georgia 30309 on Thursday, May 15, 2014 at 1:00 p.m. local time. The purposes of the meeting are:

1. To amend the Invesco Ltd. Amended and Restated Bye-Laws to declassify our Board of Directors;

2. To elect two (2) directors to the Board of Directors to hold office until the annual general meeting of shareholders in 2017;

3. To hold an advisory vote on executive compensation;

4. To appoint PricewaterhouseCoopers LLP as the company s independent registered public accounting firm for the fiscal year ending December 31, 2014; and

5. To consider and act upon such other business as may properly come before the meeting or any adjournment thereof.

During the Annual General Meeting, the audited consolidated financial statements for the fiscal year ended December 31, 2013 of Invesco will be presented. Only holders of record of Invesco common shares on March 17, 2014 are entitled to notice of and to attend and vote at the Annual General Meeting and any adjournment or postponement thereof.

March [31], 2014

Atlanta, Georgia

By Order of the Board of Directors,

Kevin M. Carome, Company Secretary

REVIEW YOUR PROXY STATEMENT AND VOTE IN ONE OF FOUR WAYS:

VIA THE INTERNET	**BY MAIL**
Visit the web site listed on your proxy card	Sign, date and return a requested proxy card
BY TELEPHONE	**IN PERSON**
Call the telephone number listed on your proxy card	Attend the Annual General Meeting in Atlanta, Georgia

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Proxy Statement Summary

This summary highlights selected information in this Proxy Statement. Please review the entire Proxy Statement and the company s Annual Report on Form 10-K for the year ended December 31, 2013 before voting.

2013 Performance Highlights

27.7%	39.7%	$34.4	29.1%	$850
Increase in Annual Adjusted Operating Income*	Annual Adjusted Operating Margin*	billion Assets Under Management Total Net Inflows	Increase in Annual Adjusted Diluted EPS*	million Total 2013 Return of Capital to Shareholders

*Note Regarding Non-GAAP Financial Measures: The adjusted financial measures are all non-GAAP financial measures. See the information on page 53 through 58 of our Annual Report on Form 10-K for the fiscal year 2013 for a presentation of, and reconciliation to, the most directly comparable GAAP measures. All current and prior period references to consolidated Invesco Ltd. results, including pre-cash bonus operating income (PCBOI) and assets under management (AUM), exclude the operations of the Atlantic Trust Private Wealth Management business (Atlantic Trust). The company closed the sale of Atlantic Trust on December 31, 2013.

2013 was a year of strong performance for Invesco. Invesco continued to provide strong, long-term investment performance to clients, which contributed to robust organic growth throughout the year. We delivered excellent results for our shareholders, continued to make progress against our strategic objectives and continued to expand the company s investment capabilities globally.

2013 Executive Compensation Highlights

Our compensation programs are tied to the achievement of our financial and strategic results and our success in serving our clients and shareholders interests. Reflecting our strong financial results and significant achievements related to our long-term strategic objectives, the compensation of our executive officers was positively impacted in 2013 and paid from the aggregate pool approved by the Compensation Committee (see *Executive Compensation Compensation Discussion and Analysis Setting Annual Incentive Compensation Pool*). Below we highlight the results of the 2013 compensation decisions for our executive officers.

* Salaries for our executive officers were unchanged for 2013. Percentages are approximate.

Proxy Statement Summary (cont d)

Results of 2013 Say-on-Pay Vote and Our Investor Outreach

At the 2013 Annual General Meeting of Shareholders, 95.8% of the votes cast were in favor of the advisory proposal to approve our named executive officer (NEO) compensation, (the Say-on-Pay advisory proposal). Although we believe that the 2013 vote conveyed our shareholders strong support of the committee s decisions and the existing executive compensation programs, during the balance of 2013 and early 2014, we continued to actively seek investor feedback concerning our compensation programs. In 2013 and early 2014, we held meetings with a significant number of our largest shareholders. While all of the shareholders we spoke with agree on the importance of pay and performance alignment, there was no consensus among these shareholders on how alignment should be measured. A number of the shareholders indicated that their Say-on-Pay decisions are made on a case-by-case basis and that they have not had any issues with Invesco s compensation in prior years, some noting in particular that they believe appropriate decisions have been made for NEO compensation. Our largest shareholders do not share a consistent philosophy regarding the structure of compensation. That said, all shareholders affirmed the importance of clear disclosure and transparency regarding the decision making process undertaken by the committee. Based on this feedback the committee determined to continue our current compensation practices as described in this Compensation Discussion and Analysis.

Matters For Shareholder Voting

At this year s Annual General Meeting, we are asking our shareholders to vote on the following matters:

Proposal 1: Amendment to our Bye-Laws to Declassify our Board of Directors

The Board recommends a vote **FOR** this proposal. See further below in this summary and page 5 for details.

Proposal 2: Election of Directors

The Board recommends a vote **FOR** the election of the director nominees named in this Proxy Statement. See further below in this summary and pages 6 through 12 for further information on the nominees.

Proposal 3: Advisory Vote on Executive Compensation

The Board recommends a vote **FOR** this proposal. See page 53 for details.

Proposal 4: Appointment of PricewaterhouseCoopers LLP for 2014

The Board recommends a vote **FOR** this proposal. See page 54 for details.

Amendment to Our Bye-Laws to Declassify Our Board Of Directors

Currently, our Board of Directors is divided into three classes and members of our Board are elected for staggered terms of three years. Our Board has adopted an amendment to the Invesco Ltd. Amended and Restated Bye-Laws (the

Bye-Laws) that, if approved by the shareholders at this year s Annual General Meeting, will provide for annual elections of our directors as follows. Commencing with the class of directors standing for election at the 2015 Annual General Meeting, directors will stand for election for one-year terms, expiring at the next succeeding Annual General Meeting. The directors who were elected at the 2013 Annual General Meeting, whose terms will expire in 2016, and the directors who are elected at the 2014 Annual General Meeting under Proposal No. 2, whose terms will expire in 2017, will continue to hold office until the end of the terms for which they were elected. Therefore, if this proposal is approved, all directors will be elected on an annual basis beginning with the 2017 Annual General Meeting. In all cases, each director will hold office until his or her successor has been elected and qualified or until the director s earlier resignation or removal. If the amendment to the Bye-Laws is not approved by our shareholders, our Board will remain classified. This proposal requires the affirmative vote of at least 75% of the issued and outstanding shares of the company.

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Proxy Statement Summary (cont d)

Election Of Directors

You are being asked to cast votes for two directors, Messrs. Denis Kessler and G. Richard Wagoner, Jr., each for a three year term expiring in 2017. As previously announced, neither Mr. Rex Adams nor Sir John Banham has been nominated for re-election to the Board because each has reached the mandatory retirement age. This proposal requires the affirmative vote of a majority of votes cast at the Annual General Meeting. Immediately below is information regarding the directors standing for election and Board members continuing in office.

							Committee Memberships		
	Name	Age	Director Since	Occupation	Independent	Other Public Boards	A	C	NCG
Directors standing for election	Denis Kessler	62	2002	Chairman and CEO, SCOR SE	X	2[(a)]	M	M	M
	G. Richard Wagoner, Jr.	61	2013	Former Chairman and CEO, General Motors Corporation	X	1	M	M	M
Directors continuing in office	Joseph R. Canion	69	1997	Former CEO, Compaq Computer Corporation; Former Chairman Insource Technology Group	X	1			Ch[(b)]
	Martin L. Flanagan	53	2005	President and CEO, Invesco Ltd.		0			
	C. Robert Henrikson	66	2012	Former President and CEO, MetLife, Inc. and Metropolitan Life Insurance Company	X	1	M	Ch[(b)]	M
	Ben F. Johnson III	70	2009	Former Managing Partner, Alston & Bird LLP	X	0	M	M	M
	Edward P. Lawrence	72	2004	Former Partner, Ropes & Gray LLP	X	0	M	M	M
	J. Thomas Presby	74	2005	Former Partner, Deloitte & Touche LLP	X	3	Ch		M
	Phoebe A. Wood	60	2010	Principal, CompaniesWood, Former Vice Chairman and CFO, Brown-Forman Corporation	X	3	M	M	M
Retiring Directors	Rex D. Adams	73	2001	Former Vice President of Administration, Mobil Corporation	X	1		M	Ch
	Sir John Banham	73	1999	Former Chairman of Johnson Mathey plc	X	1	M	Ch	M

A Audit

(a) Mr. Kessler currently serves on the board of directors of SCOR SE, BNP Paribas SA and Dassault Aviation. Effective as of the date of the 2014 Annual General Meeting, Mr. Kessler s service on the Dassault Aviation board will end.

(b) As of the conclusion of the 2014 Annual General Meeting.

C Compensation
NCG Nomination and Corporate Governance
M Member
Ch Chairman

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Proxy Statement Summary (cont d)

Governance Highlights

Independence	10 out of our 11 current directors are independent. Our CEO is the only management director. All of our Board committees are composed exclusively of independent directors.
Independent Chairman	We have an independent Chairman of our Board of Directors, selected by the independent directors. The Chairman serves as liaison between management and the other independent directors.
Executive Sessions	The independent directors regularly meet in private without management. The Chairman presides at these executive sessions.
Board Oversight of Risk Management	Our Board has principal responsibility for oversight of the company s risk management process and understanding of the overall risk profile of the company.
Share Ownership Requirements	Our non-executive directors must hold at least 18,000 shares of Invesco common stock within seven years of joining the Board. Our CEO must hold at least 250,000 shares of Invesco common stock. All other executive officers must hold at least 100,000 shares of Invesco common stock.

Board Practices	Our Board annually reviews its effectiveness as a group.
	Nomination policies are adjusted as needed to ensure that our Board as a whole continues to reflect the appropriate mix of skills and experience.
	Directors may not stand for election after age 73.
Accountability	Directors must be elected by a majority of votes cast.
	The Board is presenting for shareholder approval a resolution to declassify the Board of Directors.

Additional Information Regarding the Annual General Meeting

Please see General Information Regarding the Annual General Meeting beginning on page 57 for important additional information regarding the Annual General Meeting.

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Proxy Statement

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Invesco Ltd. (Board or Board of Directors) for the Annual General Meeting to be held on Thursday, May 15, 2014, at 1:00 p.m. Eastern Time. In this Proxy Statement, we may refer to Invesco Ltd. as the company, Invesco, we, us or

Proposal No. 1

Amendment to the Company s Amended and Restated Bye-Laws to Declassify our Board

The Board of Directors has unanimously adopted and is submitting for shareholder approval an amendment (the Amendment) to the Bye-Laws that would phase in the declassification of our Board of Directors and provide instead for the annual election of directors.

The Board believes that its classified structure has helped assure continuity of the company s business strategies and has reinforced a commitment to long-term shareholder value. Although these are important benefits, the Board recognized the growing sentiment among shareholders and the investment community in favor of annual elections. After careful consideration, the Board determined that it is appropriate to propose declassifying the Board.

Currently, our Board of Directors is divided into three classes and members of the Board are elected for staggered terms of three years. If the Amendment is approved, commencing with the class of directors standing for election at the 2015 Annual General Meeting, directors will stand for election for a one-year term, expiring at the next succeeding annual general meeting. The directors who were elected at the 2013 Annual General Meeting, whose terms will expire in 2016, and the directors who are elected at the 2014 Annual General Meeting under Proposal No. 2, whose terms will expire in 2017, will continue to hold office until the end of the terms for which they were recently elected. Therefore, if the Amendment is approved all directors will be elected on an annual basis beginning with the 2017 Annual General Meeting. The shaded blocks in the table below illustrates the years in which members of our Board would stand for annual elections if the proposal is approved by our shareholders.

	Election Year		
Director	**2015**	**2016**	**2017**
Flanagan, Henrikson, Johnson			
Canion, Wood			
Kessler, Wagoner			

In all cases, each director will hold office until his or her successor has been elected and qualified or until the director s earlier resignation or removal. If the Amendment is not approved, the Board of Directors will remain classified. Appendix A shows the proposed changes to Bye-Laws 8, 11 and 12, with deletions indicated by strikeouts and additions indicated by underlining.

Recommendation of the Board

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE BYE-LAWS. This proposal requires the affirmative vote of at least 75% of the issued and outstanding shares of the company. Abstentions will have the same effect as votes against the proposal.

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Proposal No. 2

Election of Directors

The Board is divided into three classes, and our Class I directors are serving a term of office expiring at the 2014 Annual General Meeting. A director holds office until the annual general meeting of shareholders for the year in which his or her term expires, and until such director s successor has been duly elected and qualified or until such director is removed from office under our Bye-Laws or such director s office is otherwise earlier vacated. At each annual general meeting, successors to the class of directors whose term expires at such annual general meeting will be elected for a three-year term. However, if shareholders approve Proposal No. 1 providing for annual election of directors, beginning with the 2015 Annual General Meeting, successors to the class of directors whose term expires at such annual general meeting will be elected for a one-year term.

As previously announced, neither Mr. Rex Adams nor Sir John Banham has been nominated for re-election at the 2014 Annual General Meeting because each has reached the mandatory retirement age. Following the completion of the terms of Mr. Adams and Sir John Banham at the conclusion of the 2014 Annual General Meeting, the Board intends to reduce its size to nine (9) members.

The Board has nominated Messrs. Denis Kessler and G. Richard Wagoner, Jr. for election as directors of the company for a term ending at the 2017 Annual General Meeting. Messrs. Kessler and Wagoner are current directors of the company and further information regarding each of them is shown on the following page. Each nominee has indicated to the company that he would serve if elected. We do not anticipate that Messrs. Kessler or Wagoner would be unable to stand for election, but if that were to happen, the Board may reduce the size of the Board, designate a substitute or leave a vacancy unfilled. If a substitute is designated, proxies voting on the original director candidate will be cast for the substituted candidate.

Under our Bye-Laws, at any general meeting held for the purpose of electing directors at which a quorum is present, each director nominee receiving a majority of the votes cast at the meeting will be elected as a director. If a nominee for director who is an incumbent director is not elected and no successor has been elected at the meeting, the director is required under our Bye-Laws to submit his or her resignation as a director. Our Nomination and Corporate Governance Committee would then make a recommendation to the full Board on whether to accept or reject the resignation. If the resignation is not accepted by the Board, the director will continue to serve until the next annual general meeting and until his or her successor is duly elected, or his or her earlier resignation or removal. If the director s resignation is accepted by the Board, then the Board may fill the vacancy. However, if the number of nominees exceeds the number of positions available for the election of directors, the directors so elected shall be those nominees who have received the greatest number of votes and at least a majority of the votes cast in person or by proxy.

Recommendation of the Board

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION TO THE BOARD OF EACH OF THE DIRECTOR NOMINEES. This proposal requires the affirmative vote of a majority of votes cast at the Annual General Meeting.

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Information about Director Nominees

and Directors Continuing in Office

Director Nominees

Listed below are the names, ages as of March 31, 2014, and principal occupations for the past five years of the director nominees and directors continuing in office.

DENIS KESSLER

Non-Executive Director

Director since 2002

Committees:
Audit, Compensation,

Nomination and

Corporate Governance

Denis Kessler (62) has served as a non-executive director of our company since March 2002. Mr. Kessler is chairman and chief executive officer of SCOR SE, and he also serves as a member of the board of directors of BNP Paribas SA. Mr. Kessler previously served on the boards of directors of Bollore from 1999 until 2013, Fonds Strategique d Investissement from 2008 until 2013 and Dassault Aviation from 2003 until 2014. He is member of the supervisory board of Yam Invest N.V., a privately-held company, and a global counsellor of The Conference Board. Prior to joining the SCOR group, Mr. Kessler was chairman of the French Insurance Federation, senior executive vice president of the AXA Group and executive vice chairman of the French Business Confederation. Mr. Kessler is a graduate of École des Hautes Études Commerciales (HEC Paris). He holds a Doctorat d Etat of the University of Paris. He is a Doctor Honoris Causa from the Moscow Academy of Finance and the University of Montreal.

Skills and Expertise

Denis Kessler s experience as an economist and chief executive of a major global reinsurance company have combined to give him valuable insight into both the investment management industry s macro-economic positioning over the long term as well as our company s particular challenges within that industry. Further, his experience as a director of a variety of international public companies in several industries has enabled him to provide effective counsel to our Board on many issues of concern to our management.

G. RICHARD WAGONER, JR.

Non-Executive Director

Director since 2013

Committees:
Audit, Compensation,

Nomination and

Corporate Governance

G. Richard (Rick) Wagoner, Jr. (61) has served as a non-executive director of our company since October 2013. Mr. Wagoner served as chairman and chief executive officer of General Motors Corporation (GM) from May 2003 through March 2009, and had been president and chief executive officer since June 2000. Prior positions held at GM during his 32-year career with that company include executive vice president and president of North American operations, executive vice president, chief financial officer and head of worldwide purchasing, and president and managing director of General Motors do Brasil. On June 1, 2009, GM and its affiliates filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York, seeking relief under Chapter 11 of the U.S. Bankruptcy Code. Mr. Wagoner was not an executive officer or director of GM at the time of that filing. Mr. Wagoner is a member of the board of directors of Graham Holdings Company and several privately-held companies. In addition, he is a member of the advisory boards of AEA Investors and Jefferies Investment Banking and Capital Markets Group, and he advises a number of start-up and early-stage ventures. Mr. Wagoner is a member of the board of visitors of Virginia Commonwealth University, chair of the Duke Kunshan University Advisory Board and a member of Duke s Fuqua School of Business Advisory Board. He is a member of the mayor of Shanghai, China s International Business Leaders Advisory Council. Mr. Wagoner received his B.A. from Duke University and his M.B.A. from Harvard University.

Skills and Expertise

Rick Wagoner brings to the Board valuable business, leadership and management insights into driving strategic direction and international operations gained from his 32-year career with GM. Mr. Wagoner also brings significant experience in public company financial reporting and corporate governance matters gained through his service with other public companies.

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Directors Continuing in Office Term Expiring in 2015

MARTIN L. FLANAGAN

Director, President and Chief Executive

Officer

Director since 2005

Martin Flanagan (53) has been a director and President and Chief Executive Officer of Invesco since August 2005. He is also a trustee and vice-chairman of the Invesco Family of Funds. Mr. Flanagan joined Invesco from Franklin Resources, Inc., where he was president and co-chief executive officer from January 2004 to July 2005. Previously he had been Franklin s co-president from May 2003 to January 2004, chief operating officer and chief financial officer from November 1999 to May 2003, and senior vice president and chief financial officer from 1993 until November 1999. Mr. Flanagan served as director, executive vice president and chief operating officer of Templeton, Galbraith & Hansberger, Ltd. before its acquisition by Franklin in 1992. Before joining Templeton in 1983, he worked with Arthur Andersen & Co. Mr. Flanagan received a B.A. and BBA from Southern Methodist University (SMU). He is a CFA charterholder and a certified public accountant. He serves on the Board of Governors and as a member of the Executive Committee for the Investment Company Institute, and is a former chairman. He also serves as a member of the executive board at the SMU Cox School of Business and a member of various civic organizations in Atlanta.

Skills and Expertise

Martin Flanagan has spent nearly 30 years in the investment management industry, including roles as an investment professional and a series of executive management positions in business integration, strategic planning, investment operations, shareholder services and finance, with over eight years spent as a CEO. Mr. Flanagan also obtained extensive financial accounting experience with a major international accounting firm. He also is a Chartered Financial Analyst. Through his decades of involvement, including as past chairman of our industry s principal trade association, the Investment Company Institute, he has amassed a broad understanding of the larger context of investment management that has guided the Board during many critical junctures.

C. ROBERT HENRIKSON

Non-Executive Director

Director since 2012

Committees:

Audit, Compensation and Nomination and

Corporate Governance

Robert Henrikson (66) has served as a non-executive director of our company since January 2012. Mr. Henrikson was president and chief executive officer of MetLife, Inc. and Metropolitan Life Insurance Company from March 2006 through May 2011, and he served as a director of MetLife, Inc. from April 2005, and as chairman from April 2006, through December 31, 2011. During his more than 39-year career with MetLife, Inc., Mr. Henrikson held a number of senior positions in that company s individual, group and pension businesses. Mr. Henrikson is a former chairman of the American Council of Life Insurers, a former chairman of the Financial Services Forum, a director emeritus of the American Benefits Council, and a former member of the President s Export Council. In 2012, Mr. Henrikson was elected to the board of directors of Swiss Re, where he serves as chairman of the compensation committee and is a member of the chairman s and governance committee and the finance and risk committee. Mr. Henrikson also serves as chairman of the board of the S.S. Huebner Foundation for Insurance Education, as a member of the boards of trustees of Emory University and Indian Springs School and a member of the boards of directors of The New York Philharmonic and Americares. Mr. Henrikson earned a bachelor s degree from the University of Pennsylvania and a law degree from Emory University School of Law. In addition, he is a graduate of the Wharton School s Advanced Management Program.

Skills and Expertise

Robert Henrikson s nearly 40 years of experience in the financial services industry, which includes diverse positions of increasing responsibility leading to his role as chief executive officer of MetLife, Inc., have provided him with an in-depth understanding of our industry.

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BEN F. JOHNSON III

Non-Executive

Director

Director since 2009

Committees:

Audit, Compensation

and Nomination and

Corporate Governance

Ben Johnson (70) has served as a non-executive director of our company since January 2009. Mr. Johnson served as the managing partner at Alston & Bird LLP from 1997 to 2008. He was named a partner at Alston & Bird in 1976, having joined the firm in 1971. He received his B.A. degree from Emory University and his J.D. degree from Harvard Law School. He serves as chair of the board of trustees of Atlanta s Woodward Academy and is the immediate past chair of the board of trustees of Emory University, a position he held from 2000-2013. Mr. Johnson also serves as a trustee of The Carter Center and the Charles Loridans Foundation. He is chair and a non-executive director of Summit Industries, Inc.

Skills and Expertise

Ben Johnson brings to the Board more than a decade of experience leading one of the largest law firms in Atlanta, Georgia, where Invesco was founded and grew to prominence. His career as one of the region s leading business litigators has given Mr. Johnson deep experience of the types of business and legal issues that are regularly faced by large public companies such as Invesco.

J. THOMAS PRESBY

Non-Executive

Director

Director since 2005

Committees:
Audit, Nomination and

Corporate Governance

Thomas Presby (74) has served as a non-executive director of our company since November 2005 and as chairman of the Audit Committee since April 2006. Over a period of thirty years as a partner at Deloitte LLP, he held many positions in the U.S. and abroad, including global deputy chairman and chief operating officer. Currently he is a director of the following other public companies where he also chairs the audit committees: First Solar, Inc., World Fuel Services Corp. and ExamWorks Group Inc. From 2003 to 2009, Mr. Presby was a director of Turbochef Technologies, Inc., from 2005 to 2011 he was a director of American Eagle Outfitters, Inc., and from 2003 to 2012 he was a director of Tiffany & Co. He is a board member of the New York chapter of the National Association of Corporate Directors and a trustee of Montclair State University (N.J.). He previously served as a trustee of Rutgers University and as a director and chairman of the audit committee of The German Marshall Fund of the USA. He received a B.S. in electrical engineering from Rutgers University and an MBA degree from the Carnegie Mellon University Graduate School of Business. Mr. Presby is a certified public accountant in New York and Ohio and a holder of the NACD Certificate of Director Education. He was named by the National Association of Corporate Directors as one of the Top 100 directors of 2011.

Skills and Expertise

Thomas Presby has amassed considerable experience at the highest levels of finance and accounting, having served for three decades as a partner, as well as in positions of senior management (including chief operating officer), at one of the world s largest accounting firms. In keeping with his experience, Mr. Presby has been sought by leading companies in a variety of industries to chair the audit committee, a role which he also fulfills for Invesco, where he is additionally recognized by the Board as one of our audit committee financial experts as defined under rules of the Securities and Exchange Commission.

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Directors Continuing in Office Term Expiring in 2016

JOSEPH R. CANION

Non-Executive Director

Director since 1997

Committees:
Nomination and

Corporate Governance

Joseph Canion (69) has served as a non-executive director of our company since 1997 and was a director of a predecessor constituent company (AIM Investments) from 1993 to 1997, when Invesco acquired that entity.
Mr. Canion has been a leading figure in the technology industry after co-founding Compaq Computer Corporation in 1982 and serving as its chief executive officer from 1982 to 1991. He also founded Insource Technology Group in 1992 and served as its chairman until September 2006. Mr. Canion received a B.S. and M.S. in electrical engineering from the University of Houston. He is on the board of directors of ChaCha Search, Inc. and is an advisory director of Encore Health Resources and Dynamics, Inc. and Houston Methodist Research Institute. From 2008 to 2011 he was a member of the board of Auditude.

Skills and Expertise

Joseph Canion has extensive service as a board member within the investment management industry, having also served as a director of AIM Investments, a leading U.S. mutual fund manager, from 1991 through 1997 when Invesco acquired AIM. Mr. Canion additionally has notable experience as an entrepreneur, having co-founded a business that grew into a major international technology company. We believe that his experience guiding a company throughout the entirety of its business lifecycle has given him a wide-ranging understanding of the types of issues faced by private and public companies.

EDWARD P. LAWRENCE

Non-Executive Director

Director since 2004

Committees:
Audit, Compensation

and Nomination and

Corporate Governance

Edward Lawrence (72) has served as a non-executive director of our company since October 2004. He was a partner of Ropes & Gray, a Boston law firm, from 1976 to December 2007. He currently is a retired partner of Ropes & Gray and a member of the investment committee of the firm s trust department. Mr. Lawrence is a graduate of Harvard College and earned a J.D. from Columbia University Law School. He is chairman of Partners Health Care System, Inc. and chairman of Dana-Farber Partners Cancer Center. From 1995 to 2011 he was a trustee (and chairman from 1999 to 2008) of the Board of the Massachusetts General Hospital and was a trustee of McLean Hospital in Belmont, Massachusetts from 2000 to 2011.

Skills and Expertise

Edward Lawrence has over thirty years experience as a corporate and business lawyer in a major Boston law firm, which has given him a very substantial understanding of the business issues facing large financial services companies such as Invesco. In particular, Mr. Lawrence specialized in issues arising under the Investment Company Act of 1940 and the Investment Advisers Act of 1940 which provide the Federal legal framework for the company s U.S. investment management business. This background gives Mr. Lawrence an understanding of the potential legal ramifications of Board decisions which is particularly valuable to the Board s functioning on many of the decisions it is called upon to take. As a member of his law firm s trust investment practice and as member of investment committees of numerous entities, he also has had frequent interaction with investment advisers located throughout the country, giving him an opportunity to view a wide range of investment styles and practices.

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PHOEBE A. WOOD

Non-Executive Director

Director since 2010

Committees:
Audit, Compensation

and Nomination and

Corporate Governance

Phoebe Wood (60) has served as a non-executive director of our company since January 2010. She is currently a principal at CompaniesWood and served as vice chairman, chief financial officer and in other capacities at Brown-Forman Corporation from 2001 until her retirement in 2008. Prior to Brown-Forman, Ms. Wood was vice president, chief financial officer and a director of Propel Corporation (a subsidiary of Motorola) from 2000 to 2001. Previously, Ms. Wood served in various capacities during her tenure at Atlantic Richfield Company (ARCO) from 1976 to 2000. Ms. Wood currently serves on the boards of directors of Leggett & Platt, Incorporated (compensation committee), Coca-Cola Enterprises Inc. (audit, corporate responsibility and sustainability and affiliated transaction committees) and Pioneer Natural Resources Company (audit and nominating and corporate governance committees), as well as on the boards of trustees for the University of Louisville, the Gheens Foundation and the American Printing House for the Blind. From 2001 to 2011 Ms. Wood was a member of the board of trustees for Smith College. Ms. Wood received her A.B. degree from Smith College and her M.B.A. from University of California Los Angeles.

Skills and Expertise

Phoebe Wood has extensive experience as both a director and a member of senior financial management of public companies in a variety of industries. Her significant accounting, financial, and business expertise have made her a particularly valuable addition to our directors mix of skills, and she has been designated as one of our audit committee s financial experts, as defined under rules of the Securities and Exchange Commission.

Retiring Directors

REX D. ADAMS

Non-Executive Director

Director since 2001

Committees:

Compensation and

Nomination and

Corporate Governance

Rex Adams (73) became chairman of the company in April 2006. He has served as a non-executive director of our company since November 2001 and as chairman of the Nomination and Corporate Governance Committee since January 2007. Mr. Adams was dean of the Fuqua School of Business at Duke University from 1996 to 2001 following a 30-year career with Mobil Corporation. He joined Mobil International in London in 1965 and served as vice president of administration for Mobil Corporation from 1988 to 1996. Mr. Adams was previously a director and member of the audit committee at Vintage Petroleum. Mr. Adams earned a B.A. from Duke University. He was selected as a Rhodes Scholar in 1962 and studied at Merton College, Oxford University. Mr. Adams serves on the Board of Directors of Alleghany Corporation and formerly served as chairman of the Public Broadcasting Service.

Skills and Expertise

Rex Adams has broad international experience in senior management of one of the world s largest public companies, as well as substantial insight on a variety of business management issues from an academic perspective. His nearly decade of service on our Board has given him a deep understanding of the variety of issues encountered by investment management companies throughout the business cycle.

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SIR JOHN BANHAM

Non-Executive

Director

Director since 1999

Committees:
Audit, Compensation

and Nomination and

Corporate Governance

Sir John Banham (73) has served as a non-executive director of our company

since 1999 and as chairman of the Compensation Committee since January 2007. Sir John was director general of the Confederation of British Industry from 1987 to 1992, a director of National Power and National Westminster Bank from 1992 to 1998, chairman of Tarmac PLC from 1994 to 2000, chairman of Kingfisher PLC from 1995 to 2001, chairman of Whitbread PLC from 2000 to 2005, chairman of Geest plc from 2002 to 2005 and chairman of Spacelabs Healthcare Inc. from 2005 to 2008. He was the chairman of Johnson Matthey plc from 2006 to 2011. He is currently chairman of Sultan Scientific Limited and of the UK Future Homes Commission, and an independent director of Cyclacel Pharmaceuticals Inc. Sir John is a graduate of Cambridge University and has been awarded honorary doctorates by four leading U.K. universities.

Skills and Expertise

Sir John Banham brings to the Board a very broad appreciation for international business issues garnered over an extraordinary career in a variety of industries, including financial services. From 2006 to 2011 he was chairman of a successful global manufacturing company. As past director general of the Confederation of British Industry, he represented the views of British business to relevant governments and regulators. Sir John s experience across a substantial spectrum of industries and companies within the United Kingdom gives him unique insight into the needs of our business in one of Invesco s most significant and successful markets.

For a director to be considered independent, the Board must affirmatively determine that the director does not have any material relationship with the company either directly or as a partner, shareholder or officer of an organization that has a relationship with the company. Such determinations are made and disclosed according to applicable rules established by the New York Stock Exchange (NYSE) or other rules. In accordance with the rules of the NYSE, the Board has affirmatively determined that it is currently composed of a majority of independent directors, and that the following directors are independent and do not have a material relationship with the company: Rex D. Adams, Sir John Banham, Joseph R. Canion, C. Robert Henrikson, Ben F. Johnson III, Denis Kessler, Edward P. Lawrence, J. Thomas Presby, G. Richard Wagoner, Jr. and Phoebe A. Wood.

Corporate Governance

Corporate Governance Guidelines. The Board has adopted Corporate Governance Guidelines (Guidelines) and Terms of Reference for our Chairman and for our Chief Executive Officer, each of which is available in the corporate governance section of the company s Web site at *www.invesco.com* (the company s Web site). The Guidelines set forth the practices the Board follows with respect to, among other matters, the composition of the Board, director responsibilities, Board committees, director access to officers, employees and independent advisors, director compensation and performance evaluation of the Board.

Board Leadership Structure. As described in the Guidelines, the company s business is conducted day-to-day by its officers, managers and employees, under the direction of the Chief Executive Officer and the oversight of the Board, to enhance the long-term value of the company for its shareholders. The Board is elected by the shareholders to oversee our management team and to assure that the long-term interests of the shareholders are being served. In light of these differences in the fundamental roles of the Board and management, the company has chosen to separate the Chief Executive Officer and Board chairman positions. The separation of these roles: (i) allows the Board to more effectively monitor and objectively evaluate the performance of the Chief Executive Officer, such that the Chief Executive Officer is more likely to be held accountable for his performance, (ii) allows the non-executive chairman to control the Board s agenda and information flow, and (iii) creates an atmosphere in which other directors are more likely to challenge the Chief Executive Officer and other members of our senior management team. For these reasons, the company believes that this board leadership structure is currently the most appropriate structure for the company. Nevertheless, the Board may reassess the appropriateness of the existing structure at any time, including following changes in board composition, in management, or in the character of the company s business and operations.

Code of Conduct and Directors Code of Conduct. As part of our ethics and compliance program, our Board has approved a code of ethics (the Code of Conduct) that applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions, as well as to our other officers and employees. The Code of Conduct is posted on our company s Web site. In addition, we have adopted a separate Directors Code of Conduct that applies to all members of the Board. We intend to satisfy the disclosure requirement regarding any amendment to, or a waiver of, a provision of the Code of Conduct for our directors and executive officers by posting such information on our Web site. The company maintains a compliance reporting line, where employees and individuals outside the company can anonymously submit a complaint or concern regarding compliance with applicable laws, rules or regulations, the Code of Conduct, as well as accounting, auditing, ethical or other concerns.

Board s Role in Risk Oversight. The Board has principal responsibility for oversight of the company s risk management processes and for understanding the overall risk profile of the company. Though Board committees routinely address specific risks and risk processes within their purview, the Board has not delegated primary risk oversight responsibility to a committee.

Our risk management framework provides the basis for consistent and meaningful risk dialogue up, down and across the company. Our Global Performance Measurement and Risk group assesses core investment risks. Our Corporate Risk Management Committee assesses strategic, operational and all other business risks. A network of business unit, functional and geographic risk management committees under the auspices of the Corporate Risk Management Committee maintains an ongoing risk assessment process that provides a bottom-up perspective on the specific risk areas existing in various domains of our business.

At each Board meeting, the Board reviews and discusses with senior management information pertaining to risk provided by the Global Performance Measurement and Risk group and the Corporate Risk Management

Committee. In these sessions senior management reviews and discusses with the Board the most significant risks facing the company. The Board has also reviewed and approved risk tolerance

guidelines. By receiving these regular reports, the Board maintains a practical understanding of the risk philosophy and risk tolerance of the company. Through this regular and consistent risk communication, the Board has reasonable assurance that all material risks of the company are being addressed and that the company is propagating a risk-aware culture in which effective risk management is built into the fabric of the business.

The Compensation Committee has evaluated our compensation policies and practices for all employees and has concluded that such policies and practices do not create risks that are reasonably likely to have a material adverse effect on the company. In reaching this conclusion, we undertook the following process to evaluate our compensation policies and practices:

A working group comprised of representatives from our human resources and risk management departments was established to review the potential risks associated with Invesco s compensation policies and practices. The group first created a framework for the risk assessment that incorporated certain focus areas (*e.g.*, performance measures, measurement period, etc.) that we had identified through internal and external sources.

Members of the group then reviewed each of Invesco s compensation plans (formulaic bonus payment plans for investment professionals, equity-based plans, and sales commission plans), applying the established framework. Each item was assessed and classified as low risk potential, medium risk potential or high risk potential.

After reviewing each item and the cumulative assessment for each plan, the working group reported to Invesco s Compensation Committee its findings that none of our compensation policies or practices were reasonably likely to have a material adverse effect on the Company.

The Compensation Committee reviewed these findings and concluded that none of Invesco s compensation policies or practices were reasonably likely to have a material adverse effect on the Company.

The Audit Committee routinely receives reports from the control functions of finance, legal and compliance and internal audit. The Head of Internal Audit reports to the Chairman of the Audit Committee. The Audit Committee oversees the internal audit function s planning and resource allocation in a manner designed to ensure testing of controls and other Internal Audit activities are appropriately prioritized in a risk-based manner. The Audit Committee also seeks to assure that appropriate risk-based inputs from management and internal audit are communicated to the company s independent public auditors.

Information about the Board and Its Committees

Board Meetings and Annual General Meeting of Shareholders

During the calendar year ended December 31, 2013, the Board held ten meetings (not including committee meetings). Each director attended at least seventy-five percent (75%) of the aggregate of the total number of meetings held by the Board and the total number of meetings held by all committees of the Board on which he or she served during 2013. The Board does not have a formal policy regarding Board member attendance at shareholder meetings. Eight of our ten directors then in office attended the 2013 Annual General Meeting. Those not attending the meeting were unable to be present due to travel schedules. The non-executive directors (those directors who are not officers or employees

of the company) meet in executive session at least once per year during a regularly scheduled Board meeting without management. Rex D. Adams, a non-executive and independent director, presides at the executive sessions of the non-executive directors. As previously announced, the Board has elected Ben F. Johnson III to serve as Chairman of the Board following the expiration of the term of Mr. Adams at the conclusion of this year s Annual General Meeting.

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Committee Membership and Meetings

The current committees of the Board are the Audit Committee, the Compensation Committee and the Nomination and Corporate Governance Committee. The table below provides current membership information.

Name	Audit	Compensation	Nomination and Corporate Governance
Rex D. Adams (1)		M	C
Sir John Banham (1)	M	C	M
Joseph R. Canion(1)			M
Martin L. Flanagan			
C. Robert Henrikson(1)	M	M	M
Ben F. Johnson III(2)	M	M	M
Denis Kessler	M	M	M
Edward P. Lawrence	M	M	M
J. Thomas Presby	C		M
G. Richard Wagoner, Jr.	M	M	M
Phoebe A. Wood	M	M	M

M Member **C** Chairman

(1) Neither Mr. Adams nor Sir John Banham has been nominated for re-election at the 2014 Annual General Meeting because each has reached the mandatory retirement age. The Board has appointed Mr. Canion to serve as Chairman of the Nomination and Corporate Governance Committee and Mr. Henrikson to serve as Chairman of the Compensation Committee following the expiration of the terms of Mr. Adams and Sir John Banham at the conclusion of this year s Annual General Meeting.

(2) The Board has appointed Mr. Johnson to serve as Chairman of the Board following the expiration of the term of Mr. Adams at the conclusion of this year s Annual General Meeting.

Below is a description of each committee of the Board. The Board has affirmatively determined that each committee consists entirely of independent directors according to applicable NYSE rules and rules promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act).

The Audit Committee

The Audit Committee is chaired by Mr. Presby and consists additionally of Messrs. Banham, Henrikson, Johnson, Kessler, Lawrence, Wagoner and Ms. Wood. The committee met twelve times during 2013. (The frequency of the committee s meetings is due to its practice of separately considering certain matters, such as pre-filing review of quarterly reports, among others, in order to devote ample time for discussion and consideration.) Under its charter, the

committee:

- is comprised of at least three members of the Board, each of whom is independent of the company under the NYSE and rules of the Securities and Exchange Commission (SEC) and is also financially literate, as defined under NYSE rules;
- members are appointed and removed by the Board;
- is required to meet at least quarterly;
- periodically meets with the head of Internal Audit and the independent auditor in separate executive sessions without members of senior management present;
- has the authority to retain independent advisors, at the company s expense, wherever it deems appropriate to fulfill its duties; and
- reports to the Board regularly.

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The committee s charter is available on the company s Web site. The charter sets forth the committee s responsibilities, which include, among other items, assisting the Board in fulfilling its responsibility to oversee the company s financial reporting, auditing and internal control activities, including the integrity of the company s financial statements and assisting the Board in overseeing the company s legal and regulatory compliance.

The committee has adopted policies and procedures for pre-approving all audit and non-audit services provided by our independent auditors. The policy is designed to ensure that the auditor s independence is not impaired. The policy provides that, before the company engages the independent auditor to render any service, the engagement must either be specifically approved by the Audit Committee or fall into one of the defined categories that have been pre-approved. (See *Pre-Approval Process and Policy* below.)

The Board has determined that all committee members are financially literate under the NYSE listing standards. The Board has further determined that each of Mr. Presby and Ms. Wood qualifies as an audit committee financial expert (as defined under the SEC s rules and regulations), that each has accounting or related financial management expertise and that each is independent of the company under SEC rules and the NYSE listing rules. The Board has also determined that Mr. Presby s service on the audit committees of more than three public companies does not impair his ability to effectively serve on the Audit Committee.

The Compensation Committee

The Compensation Committee is chaired by Sir John Banham and consists additionally of Messrs. Adams, Henrikson, Johnson, Kessler, Lawrence, Wagoner and Ms. Wood. The committee met six times during 2013. As previously discussed, Mr. Henrikson has been appointed as chairman of the committee effective upon the close of the 2014 Annual General Meeting. Under its charter, the committee:

- is comprised of at least three members of the Board, each of whom is independent of the company under the NYSE and SEC rules;
- members are appointed and removed by the Board;
- is required to meet at least four times annually; and
- has the authority to retain independent advisors, at the company s expense, wherever it deems appropriate to fulfill its duties, including any compensation consulting firm.

The committee s charter is available on the company s Web site. The charter sets forth the committee s responsibilities, which include, among other items, annually approving the compensation structure for, and reviewing and approving the compensation of, senior officers and non-executive directors, and overseeing the annual process for evaluating senior officer performance, overseeing the administration of the company s equity-based and other incentive compensation plans, and assisting the Board with executive succession planning.

Each year the committee engages a third-party compensation consultant to provide an analysis of, and counsel on, the company s executive compensation program and practices. The nature and scope of the consultant s assignment is set by the committee. The committee currently engages Johnson Associates, Inc. (Johnson Associates) as its third-party

consultant for this review. The committee has considered various factors as required by NYSE rules as to whether the work of Johnson Associates with respect to executive and director compensation-related matters raised any conflict of interest. The committee has determined no conflict of interest was raised by the engagement of Johnson Associates. For a more detailed discussion of the determination of executive compensation and the role of the third-party compensation consultant, please see *Executive Compensation Compensation Discussion and Analysis* below.

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The committee meets at least annually to review and determine the compensation of the company s non-executive directors. In reviewing and determining non-executive director compensation, the committee considers, among other things, the following policies and principles:

- that the compensation should fairly pay the non-executive directors for the work, time commitment and efforts required by directors of an organization of the company s size and scope of business activities, including service on Board committees;

- that a component of the compensation should be designed to align the non-executive directors interests with the long-term interests of the company s shareholders; and

- that non-executive directors independence may be compromised or impaired for Board or committee purposes if director compensation exceeds customary levels.

As a part of its review, the committee periodically engages Johnson Associates as a third-party consultant to report on comparable non-executive director compensation practices and levels. No executive officer of the company is involved in determining or recommending non-executive director compensation levels. See *Director Compensation* below, for a more detailed discussion of compensation paid to the company s directors during 2013.

The Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee is chaired by Mr. Adams and consists additionally of Messrs. Banham, Canion, Henrikson, Johnson, Kessler, Lawrence, Presby, Wagoner and Ms. Wood. As previously discussed, Mr. Canion has been appointed as chairman of the committee effective upon the close of the 2014 Annual General Meeting. The committee met five times during 2013. Under its charter, the committee:

- is comprised of at least three members of the Board, each of whom is independent of the company under the NYSE and SEC rules;

- members are appointed and removed by the Board;

- is required to meet at least quarterly; and

- has the authority to retain independent advisors, at the company s expense, whenever it deems appropriate to fulfill its duties.

The committee s charter is available on the company s Web site. The charter sets forth the committee s responsibilities, which include, among other items, establishing procedures for identifying and evaluating potential nominees for director and for recommending to the Board potential nominees for election and periodically reviewing and reassessing the adequacy of the Guidelines to determine whether any changes are appropriate and recommending any such changes to the Board for its approval. The candidates proposed for election in Proposal No. 2 of this Proxy

Statement were unanimously recommended by the committee to the Board.

The committee believes there are certain minimum qualifications that each director nominee must satisfy in order to be suitable for a position on the Board, including that such nominee:

- be an individual of the highest integrity and have an inquiring mind, a willingness to ask hard questions and the ability to work well with others;
- be free of any conflict of interest that would violate any applicable law or regulation or interfere with the proper performance of the responsibilities of a director;
- be willing and able to devote sufficient time to the affairs of the company and be diligent in fulfilling the responsibilities of a director and Board committee member; and
- have the capacity and desire to represent the best interests of the shareholders as a whole.

In considering candidates for director nominee, the committee generally assembles all information regarding a candidate s background and qualifications, evaluates a candidate s mix of skills and qualifications

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and determines the contribution that the candidate could be expected to make to the overall functioning of the Board, giving due consideration to the Board balance of diversity of perspectives, backgrounds and experiences. While the committee routinely considers diversity as a part of its deliberations, it has no formal policy regarding diversity. With respect to current directors, the committee considers past participation in and contributions to the activities of the Board. The committee recommends director nominees to the Board based on its assessment of overall suitability to serve in accordance with the company s policy regarding nominations and qualifications of directors.

The committee will consider candidates recommended for nomination to the Board by shareholders of the company. Shareholders may nominate candidates for election to the Board under Bermuda law and our Bye-Laws. The manner in which the committee evaluates candidates recommended by shareholders would be generally the same as any other candidate. However, the committee would also seek and consider information concerning any relationship between a shareholder recommending a candidate and the candidate to determine if the candidate can represent the interests of all of the shareholders. The committee would not evaluate a candidate recommended by a shareholder unless the shareholder s proposal provides that the potential candidate has indicated a willingness to serve as a director, to comply with the expectations and requirements for Board service as publicly disclosed by the company and to provide all of the information necessary to conduct an evaluation. For further information regarding such deadlines for shareholder proposals, see *Important Additional Information Shareholder Proposals for the 2015 Annual General Meeting* below.

Director Compensation

Directors who are Invesco employees do not receive compensation for their services as directors. Under the terms of its charter, the Compensation Committee annually reviews and determines the compensation paid to non-executive directors. Directors do not receive any meeting or attendance fees.

The Compensation Committee approved the following fee arrangements for non-executive directors for 2013, with each fee component to be paid in quarterly installments in arrears:

Basic Cash Fee	Non-executive directors (other than the Chairman of the Board) receive an annual basic fee paid in cash in the amount of $120,000. Such fee is paid in arrears in four quarterly installments.
Chairman Fee	In lieu of the above basic cash fee, the Chairman of the Board receives an annual cash fee of $400,000.
Basic Shares Fee	Non-executive directors also receive an annual award of shares in the aggregate amount of $95,000. Such shares are paid in arrears in four quarterly installments of $23,750. Each installment is issued on the second business day following the public announcement of the company s quarterly earnings results. (By way of example, the installment for the fourth quarter is issued in the first quarter of the following year after publication of the earnings release for the fourth quarter.)
Audit Committee Chairman	The chairman of the Audit Committee receives an additional annual cash fee of $50,000.
Compensation and Nomination and	The chairman of the Compensation Committee and the chairman of the Nomination and Corporate Governance Committee each receive an additional annual cash fee of $15,000.

Committee Chairmen

We also reimburse each of our non-executive directors for their travel expenses incurred in connection with attendance at Board of Directors and committee meetings.

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Following a review of current market practices for directors of peer public companies, the Compensation Committee determined in December 2013 that the basic shares fee for non-executive directors will increase to an annual award amount of $145,000, with such shares to be issued in arrears in four quarterly installments of an amount equal to $36,250. All other fees will remain the same for 2014.

Stock Ownership Policy for Non-Executive Directors All shares granted to our non-executive directors are subject to the Non-Executive Director Stock Ownership Policy. The policy generally requires each non-executive director to achieve an ownership level of at least 18,000 shares within seven years of the date of such director s first appointment as a non-executive director. Until such ownership level is achieved, each non-executive director is generally required to continue to retain at least 50% of all shares received as compensation from the company following enactment of the ownership policy.

The following table shows as of December 31, 2013 the status of our non-executive directors meeting the requirements of the policy.

Name	Year Service Commenced	Total Shares Held (#)	Share Ownership Goal Met (1)
Rex D. Adams	2001	65,821	ü
Sir John Banham	1999	18,390	ü
Joseph R. Canion	1997	36,393	ü
C. Robert Henrikson	2012	6,349	
Ben F. Johnson III	2009	18,371	ü
Denis Kessler	2002	30,615	ü
Edward P. Lawrence	2004	28,868	ü
J. Thomas Presby	2005	22,091	ü
G. Richard Wagoner, Jr.	2013	5,000	
Phoebe A. Wood	2010	15,433	

(1) Based on current compensation levels, it is anticipated that Messrs. Henrikson and Wagoner and Ms. Wood will attain their share ownership goal within the time period prescribed by the policy.

Director Compensation Table for 2013

The following table sets forth the compensation paid to our non-executive directors for services during 2013.

Name	Fees Earned or Paid in Cash ($)(1)	Share Awards ($)(2)	Total ($)

Rex D. Adams	415,000	94,925	509,925
Sir John Banham	135,000	94,925	229,925
Joseph R. Canion	120,000	94,925	214,925
C. Robert Henrikson	120,000	94,925	214,925
Ben F. Johnson III	120,000	94,925	214,925
Denis Kessler	120,000	94,925	214,925
Edward P. Lawrence	120,000	94,925	214,925
J. Thomas Presby	170,000	94,925	264,925
G. Richard Wagoner, Jr. (3)	-	-	-
Phoebe A. Wood	120,000	94,925	214,925

(1) Includes the annual basic fee and, as applicable, Chairman of the Board fee and committee chairman fees.
(2) Reflects the grant date fair value for each share award. Share awards are 100% vested as of the date of grant.
(3) Mr. Wagoner joined our Board in October 2013 and did not receive any compensation in 2013.

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The following table presents the grant date fair value for each share award made to each non-executive director during 2013.

Name	Date of Grant 2/1/13 ($)	Date of Grant 5/1/13 ($)	Date of Grant 8/1/13 ($)	Date of Grant 11/1/13 ($)	Total Grant Date Fair Value ($)
Rex D. Adams	23,743	23,737	23,723	23,722	94,925
Sir John Banham	23,743	23,737	23,723	23,722	94,925
Joseph R. Canion	23,743	23,737	23,723	23,722	94,925
C. Robert Henrikson	23,743	23,737	23,723	23,722	94,925
Ben F. Johnson III	23,743	23,737	23,723	23,722	94,925
Denis Kessler	23,743	23,737	23,723	23,722	94,925
Edward P. Lawrence	23,743	23,737	23,723	23,722	94,925
J. Thomas Presby	23,743	23,737	23,723	23,722	94,925
G. Richard Wagoner, Jr. (1)	-	-	-	-	-
Phoebe A. Wood	23,743	23,737	23,723	23,722	94,925

(1) Mr. Wagoner joined our Board in October 2013 and did not receive any compensation in 2013.

The aggregate number of share awards outstanding as of December 31, 2013 for each of our non-executive directors was as follows:

Name	Shares Outstanding (#)	Deferred Shares Outstanding (#)	Total Share Awards Outstanding (#)
Rex D. Adams	29,536		29,536
Sir John Banham	16,993		16,993
Joseph R. Canion (1)	29,468	5,925	35,393
C. Robert Henrikson	6,021		6,021
Ben F. Johnson III	18,371		18,371
Denis Kessler	29,515		29,515
Edward P. Lawrence	28,868		28,868
J. Thomas Presby	22,091		22,091
G. Richard Wagoner, Jr. (2)	-		-
Phoebe A. Wood	14,590		14,590

(1) For Mr. Canion, represents deferred shares awarded under our legacy Deferred Fees Share Plan.

(2) Mr. Wagoner joined our Board in October 2013 and did not receive any compensation in 2013.

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Information about

the Executive Officers of the Company

In addition to Martin Flanagan, whose information is set forth above, the following is a list of individuals serving as executive officers of the company as of the date of this Proxy Statement. All company executive officers are elected annually by the Board and serve at the discretion of the Board or our Chief Executive Officer.

G. MARK ARMOUR

Senior Managing Director and Head of EMEA

Mark Armour (60) has served as head of EMEA (which includes Europe, Middle East and Africa) since February 2013. Previously, Mr. Armour served as senior managing director and head of Invesco Institutional, a position he held since January 2007. Mr. Armour also has served as head of sales and service for Invesco s institutional operations. He was chief executive officer of Invesco Australia from September 2002 to July 2006. Prior to joining Invesco, Mr. Armour held significant leadership roles in the funds management business in both Australia and Hong Kong. He previously served as chief investment officer for ANZ Investments and spent almost 20 years with the National Mutual/AXA Australia Group, where he was chief executive, Funds Management, from 1998 to 2000. Mr. Armour earned a bachelor of economics from La Trobe University in Melbourne, Australia.

KEVIN M. CAROME

Senior Managing Director and General Counsel

Kevin Carome (57) has served as general counsel of our company since January 2006. Previously, he was senior vice president and general counsel of Invesco s U.S. retail business from 2003 to 2005. Prior to joining Invesco, Mr. Carome worked with Liberty Financial Companies, Inc. (LFC) in Boston where he was senior vice president and general counsel from August 2000 through December 2001. He joined LFC in 1993 as associate general counsel and, from 1998 through 2000, was general counsel of certain of its investment management subsidiaries. Mr. Carome began his career as an associate at Ropes & Gray in Boston. He earned two degrees, a B.S. in political science and a J.D., from Boston College. He is a trustee of the U.S. Powershares ETFs and a director of ICI Mutual Insurance Company, the investment management industry captive insurer.

KAREN DUNN KELLEY

Senior Managing Director, Investments

Karen Dunn Kelley (53) has served as senior managing director, Investments, since 2011. Ms. Dunn Kelley joined Invesco in 1989 as a money market portfolio manager. In 1992, she was named chief money market and government officer. In April 2007, she was named head of Invesco s newly combined fixed income and cash management teams. Ms. Dunn Kelley has been in the investment business since 1982 and began her career at Drexel Burnham Lambert on the Fixed Income High Grade

Retail Desk. Ms. Dunn Kelley graduated with a B.S. from Villanova University College of Commerce and Finance.

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ANDREW T. S. LO

Senior Managing Director and Head of Invesco Asia Pacific

Andrew T. S. Lo (52) has served as head of Invesco Asia Pacific since February 2001. He joined our company as managing director for Invesco Asia in 1994. Mr. Lo began his career as a credit analyst at Chase Manhattan Bank in 1984. He became vice president of the investment management group at Citicorp in 1988 and was managing director of Capital House Asia from 1990 to 1994. Mr. Lo was chairman of the Hong Kong Investment Funds Association from 1996 to 1997 and a member of the Council to the Stock Exchange of Hong Kong and the Advisory Committee to the Securities and Futures Commission in Hong Kong from 1997 to 2001. He earned a B.S. and an MBA from Babson College in Wellesley, Massachusetts.

COLIN D. MEADOWS

Senior Managing Director and Chief Administrative Officer

Colin Meadows (43) has served as chief administrative officer of Invesco since May 2006 with responsibility for business strategy, human resources, and communications. In September 2008 he expanded his role with responsibilities for operations and technology. Mr. Meadows came to Invesco from GE Consumer Finance where he was senior vice president of business development and mergers and acquisitions. Prior to that role, he served as senior vice president of strategic planning and technology at Wells Fargo Bank. From 1996 to 2003, Mr. Meadows was an associate principal with McKinsey & Company, focusing on the financial services and venture capital industries, with an emphasis in the banking and asset management sectors.
Mr. Meadows earned a B.A. in economics and English literature from Andrews University and a J.D. from Harvard Law School.

LOREN M. STARR

Senior Managing Director and Chief Financial Officer

Loren Starr (52) has served as senior managing director and chief financial officer of our company since October 2005. His current responsibilities include finance, accounting, investor relations and corporate services. Previously, he served from 2001 to 2005 as senior vice president and chief financial officer of Janus Capital Group Inc., after working as head of corporate finance from 1998 to 2001 at Putnam Investments. Prior to these positions, Mr. Starr held senior corporate finance roles with Lehman Brothers and Morgan Stanley & Co. He earned a B.A. in chemistry and B.S. in industrial engineering, from Columbia University, as well as an MBA from Columbia, and an M.S. in operations research from Carnegie Mellon University. Mr. Starr is a certified treasury professional. He is a past chairman of the Association for Financial Professionals, and he currently serves on the boards of Georgia Leadership Institute for School Improvement (GLISI), the Georgia Council for Economic Education (GCEE) and the Woodruff Arts Center.

PHILIP A. TAYLOR

Senior Managing Director and Head of the Americas	Philip Taylor (59) became head of Invesco s Americas business in 2012. He had previously served as head of Invesco s North American Retail business since 2006. He joined Invesco Canada in 1999 as senior vice president of operations and client services, and later became executive vice president and chief operating officer. He was named chief executive officer of Invesco Canada in 2002. Prior to joining Invesco, Mr. Taylor was president of Canadian retail broker Investors Group Securities, and co-founder and managing partner of Meridian Securities, an execution and clearing broker. He held various management positions with Royal Trust, now part of Royal Bank of Canada. Mr. Taylor began his career in consumer brand management in the U.S. and Canada with Richardson-Vicks, now part of Procter & Gamble. He received a Bachelor of Commerce (honours) degree from Carleton University and an M.B.A. from the Schulich School of Business at York University. Mr. Taylor is a member of the dean s advisory council of the Schulich School of Business. He serves on the board of overseers for the Curtis Institute of Music and on the board of the Royal Conservatory of Music.

Executive Compensation

Compensation Discussion and Analysis

This section presents a discussion and analysis of the philosophy and objectives of our Board s Compensation Committee (the committee) in designing and implementing compensation programs for our executive officers. In addition, this section describes and analyzes the 2013 compensation determinations relating to our Chief Executive Officer, Chief Financial Officer, and the next three most highly compensated executive officers (our named executive officers or NEOs).

Executive Summary

2013 Performance Highlights

27.7%	39.7%	$34.4	29.1%	$850
Increase in Annual Adjusted Operating Income*	Annual Adjusted Operating Margin*	billion Assets Under Management Total Net Inflows	Increase in Annual Adjusted Diluted EPS*	million Total 2013 Return of Capital to Shareholders

*Note regarding Non-GAAP Financial Measures: The adjusted financial measures are all non-GAAP financial measures. See the information on page 53 through 58 of our Annual Report on Form 10-K for the fiscal year 2013 for a presentation of, and reconciliation to, the most directly comparable GAAP measures. All current and prior period references to consolidated Invesco Ltd. results, including PCBOI and AUM, exclude the operations of Atlantic Trust. The company closed the sale of Atlantic Trust on December 31, 2013.

2013 was a year of strong performance for Invesco. Invesco continued to provide strong, long-term investment performance to clients, which contributed to robust organic growth throughout the year. We delivered excellent results for our shareholders, continued to make progress against our long-term strategic objectives and continued to expand the company s investment capabilities globally.

2013 Executive Compensation Highlights

Our compensation programs are tied to the achievement of our financial and strategic results and our success in serving our clients and shareholders interests. Reflecting our strong financial results and significant achievements related to our long-term strategic objectives, the compensation of our executive officers was positively impacted in 2013 and paid from the aggregate incentive pool approved by the committee (see *Setting Annual Incentive Compensation Pool*). Below we highlight the results of the 2013 compensation decisions for our executive officers.

* Salaries for our executive officers were unchanged for 2013. Percentages are approximate.

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Executive Summary (cont d)

Named Executive Officer Compensation Over A Five-Year Period

The below chart shows the compensation of our NEOs over a five-year period. The committee believes the chart illustrates the appropriate alignment of NEO compensation with the overall operating results of the company for the past five years. For 2013, total compensation for the NEOs increased 16% while adjusted operating income increased 27.7%.

2013 Chief Executive Officer Compensation

Our President and Chief Executive Officer s incentive compensation increased for 2013.

Mr. Flanagan led the company s strong financial performance in 2013, which included a 27.7% increase in annual adjusted operating income, 39.7% annual adjusted operating margin (an increase of 4.0 percentage points over 2012), a 29.1% increase in annual adjusted diluted EPS, total net inflows of $34.4 billion and $850 million return of capital to our shareholders. In addition, Mr. Flanagan oversaw significant achievements related to our strategic objectives, as further described below. In light of the foregoing, the committee increased Mr. Flanagan s cash bonus by 33%, his annual stock deferral by 23%, and his long-term equity award by 15%.
For more information regarding annual compensation for our Chief Executive Officer and each of the other named executive officers, see *2013 Named Executive Officer Compensation* below.

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Executive Summary (cont d)

Progress Against Our Strategic Objectives

Throughout the year, we continued to make substantial progress against our long-term strategic objectives set forth below. Significant achievements across all areas of our business that further positioned us for growth and long-term success included:

Achieve strong investment performance   Investment performance across the company remained strong throughout 2013. Delivering strong, long-term investment performance to clients contributed to strong organic growth throughout the year.

Be instrumental in our clients   success   Further strengthened and deepened client relationships through superior client engagement. The company made solid progress building world-class fixed income capabilities through the creation of a global fixed income capability, which contributed to record AUM levels in Bank Loans, Stable Value and Investment Grade portfolios. The company further expanded its Exchange-Traded Fund (ETF) franchise, which contributed to record AUM levels for its ETF portfolio. Additionally, the company continued to anticipate client demand by expanding its global investment strategies through the introduction of new multi-asset capabilities and liquid alternative products that we believe will benefit clients and our business over the long term.

Harness the power of our global platform   As a demonstration of our ability to leverage our global platform, in 2013 Invesco launched a number of new capabilities globally that support the future growth of the firm. In fact, Invesco launched more funds during the fourth quarter than we did in any full calendar year over the past five years.

Perpetuate a high-performance organization   Successfully implemented key organizational changes to better align us with future growth opportunities, increased collaboration across regions, and significantly reinvested in employee talent through additional focus on performance leadership and succession planning. Invesco s employee engagement scores continued to exceed benchmarks set by high performing companies worldwide, as reflected in data from a third-party administered employee survey.

Our Compensation Practices

Below we highlight certain executive compensation practices that are designed to align executive pay with performance, ensure good governance, and serve our shareholders   long-term interests.

What We Do

Pay for performance. We tie pay to the performance of the company and the individual. The great majority of executive compensation is not guaranteed and is variable.

Strong emphasis on deferred compensation. Compensation for our executive officers is heavily weighted to deferred compensation (60-70%), consisting of annual stock deferral and long-term equity awards that vest over four years. Base salaries for our executive officers average approximately 10% of their total annual compensation.

Performance-based long-term equity awards. 30% of long-term equity awards for executive officers is tied to the achievement of specified levels of adjusted operating margin or adjusted diluted earnings per share. For more information regarding long-term equity awards made to our executive officers, including our named executive officers, see *Our Performance-Based Long-Term Equity Awards* below.

Long vesting periods. Our equity awards generally vest in annual tranches over a four-year period.

Linkage of incentive compensation pool to PCBOI. We have a history of disciplined decision-making over multiple years and through various economic cycles, including directly linking the

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Executive Summary (cont d)

aggregate incentive compensation pool to a defined range of our pre-cash bonus operating income (PCBOI); thereby ensuring incentive compensation is paid only when the company is generating operating income.

Clawback policy. The company maintains a clawback policy applicable to our executive officers performance-based long-term equity awards which permits the company to recover compensation in the event of fraudulent or willful misconduct. For more information regarding our clawback policy, see *Clawback Policy* below.

Share ownership guidelines. We maintain robust share ownership guidelines for our executive officers, creating a further link between management interests, company performance and shareholder value. Shares must be held until share ownership guidelines are met. All of our executive officers have exceeded the ownership requirements. For more information regarding our share ownership guidelines, see *Share Ownership Guidelines* below.

Double triggers. We maintain a double trigger requirement on the vesting of equity awards in the event of a change in control, meaning that an equity award holder must be terminated following the change in control before vesting will be accelerated.

Modest perquisites. We provide modest perquisites that provide a sound benefit to the company s business.

Independent compensation committee consultant. Our independent compensation consultant, Johnson Associates, Inc., is retained directly by the committee and performs no other services for the company.

What We Don t Do

No dividends or dividend equivalents on unearned performance-based awards. No dividends or dividend equivalents are paid on performance-based awards during the vesting period. Rather, dividends are deferred and are paid based on performance achieved, with no premiums.

No gross ups. We do not generally provide excise tax gross ups, other than in the case of certain relocation expenses, consistent with our relocation policy.

No short selling or hedging. Our insider trading policy strictly prohibits short selling, dealing in publicly-traded options and hedging or monetization transactions in our common shares.

No option re-pricing. Our equity incentive plans contain certain provisions prohibiting option repricing absent approval of our shareholders.

Results of 2013 Say-on-Pay Vote and Our Investor Outreach Program

At the 2013 Annual General Meeting of Shareholders, 95.8% of the votes cast were in favor of the advisory proposal to approve our NEO compensation, (the Say-on-Pay advisory proposal). Although we believe that the 2013 vote conveyed our shareholders strong support of the committee s decisions and the existing executive compensation programs, during the balance of 2013 and early 2014, we continued to actively seek investor feedback concerning our compensation programs by holding meetings with a significant number of our largest shareholders. While all of the shareholders we spoke with agree on the importance of pay and performance alignment, there was no consensus among these shareholders on how alignment should be measured. A number of the shareholders indicated that their Say-on-Pay decisions are made on a case-by-case basis and that they have not had any issues with Invesco s compensation in prior years, some noting in particular that they believe appropriate decisions have been made for NEO compensation. Our largest shareholders do not share a consistent philosophy regarding the structure of compensation. That said, all shareholders affirmed the importance of clear disclosure and transparency regarding the decision making process undertaken by the committee. Based on this feedback the committee determined to continue our current compensation practices as described in this Compensation Discussion and Analysis.

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Our Compensation Philosophy

To support our long-term strategic objectives, we have structured our compensation programs at every level to achieve the following objectives:

- align individual awards with shareholder and client success;
- reinforce our commercial viability by closely linking rewards to results at every level;
- reinforce our meritocracy by differentially rewarding high-performers; and
- recognize and retain top talent by ensuring a meaningful mix of cash and deferred compensation vehicles.

Determining Compensation of Our Executive Officers

Role of the Compensation Committee

The committee has, among other duties, responsibility for determining the components and amounts of compensation paid to our executive officers, including our named executive officers. The committee s responsibilities include:

- reviewing and making recommendations to the Board about the company s overall compensation philosophy;
- approving company-wide annual compensation;
- evaluating the performance of, and setting the compensation for, the Chief Executive Officer; and
- reviewing and overseeing management s annual process for evaluating the performance of, and approving the compensation for, all other executive officers, including our other named executive officers.

The committee s philosophy in practice delivers a significant portion of total pay through incentive compensation. The majority of incentive compensation is deferred and tied to financial and strategic performance in order to align individual rewards with client and shareholder success. In determining the compensation levels, the committee considers the achievement of strategic objectives, the success in executing annual objectives, year-over-year operating results, operating margin, year-over-year earnings per share and operating results versus peers. In addition, the committee considers the competitive environment and the economic cycle. All incentive compensation is constrained by the range of PCBOI to ensure, at all times, the incentive pool is linked to Invesco s operating results. The committee makes its compensation decisions based upon the totality of the results without tying such decisions to a specific formula. The committee believes that this holistic approach, which incorporates fact-based qualitative judgments based upon the factors described above, is more effective than purely mechanical formula criteria.

Role of the Compensation Consultant

The committee s charter gives it the authority to retain consultants and other advisors to assist it in performing its duties. The committee has engaged Johnson Associates, Inc., an independent consulting firm, to advise it on director and executive compensation matters. Johnson Associates:

- attends certain meetings of the committee and periodically meets with the committee without members of management present;

- assists the committee throughout the year in its analysis and evaluation of our overall executive compensation programs, including compensation paid to our directors and executive officers;

provides the committee with certain market data and analysis that compares executive compensation paid by the company with that paid by other firms in the financial services industry and certain investment management firms which we consider generally comparable to us; and

provides commentary regarding market conditions, market impressions and compensation trends.

The committee uses such data as reference material to assist it in gaining a general awareness of industry compensation standards and trends. The market data, including performance and pay practices of the peer group and broader investment management firms, do not directly affect the committee s compensation determinations for our executive officers, including our named executive officers. Although we seek to offer to our executive officers a level of total compensation that is competitive, the committee does not target a particular percentile of market or the peer group with respect to total pay packages or any individual components thereof. The committee s consideration of the market data constitutes only one of many factors reviewed and such market data is considered generally and not as a substitute for the committee s independent judgment in making compensation decisions regarding our executive officers.

Under the terms of its engagement with the committee, Johnson Associates does not provide any other services to the company unless the committee has approved such services. No such other services were provided in 2013. The company uses other compensation and benefits consultants to provide market data, actuarial services and/or advice relating to broad management employee programs in which named executive officers may participate.

Review of Peer Compensation

In determining executive compensation, the committee reviews the executive compensation programs and levels of our industry peer companies, as well as other comparable investment management reference companies. Our industry peers (see box to the right) consist of companies in the S&P 500 and S&P 400 that are also in the Asset Management and Custody Bank sub-index, plus AllianceBernstein L.P., another global asset manager followed by industry analysts.

Role of Executive Officers in Determining Executive Compensation

Our Chief Executive Officer meets with the non-executive directors (including the members of the committee) throughout the year to discuss executive performance and compensation matters, including proposals relative to compensation for individual executive officers (other than the Chief Executive Officer). Our Chief Executive Officer and Chief Administrative Officer work with the committee to implement our compensation philosophy. They also provide to the committee information regarding financial and investment performance of the company as well as our progress toward our long-term strategic objectives. Our Chief Financial Officer assists as needed in explaining specific aspects of the company s financial performance.

Setting Annual Incentive Compensation Pool

Based upon the above principles and processes, at regular intervals during the year, the committee examines the company s progress on multiple operating measures, which include client success and financial measures, including

PCBOI, adjusted operating margin, assets under management and adjusted

diluted earnings per share, as well as key measures, such as the company s progress toward achieving its strategic objectives. While each of these items is considered by the committee, the committee does not attempt to rank or assign relative weight to any factor but rather applies its judgment in considering them in their entirety. The committee is focused on the totality of organizational success without tying compensation decisions to a specific formula.

Following the end of the fiscal year, the committee establishes an overall company-wide incentive pool within established guidelines described below to ensure that compensation is aligned with the financial and strategic results discussed above. The pool is comprised of a cash bonus pool and a deferred compensation pool (consisting of annual stock deferral and long-term equity awards that vest over four years). All 2013 awards, including NEO awards, were paid out of these incentive pools.

For more information regarding annual stock deferral awards and long-term equity awards, see *Components of Executive Compensation and Their Purpose* and *Our Performance-Based Long-Term Equity Awards* below.

The committee annually sets parameters, used consistently for many years, to guide the end-of-year decision-making process regarding the company-wide incentive pool size. These parameters are expressed as a percentage of PCBOI. The committee uses a range of 34-48% of PCBOI, in the aggregate, in setting the company-wide incentive pool, though it maintains the flexibility to go outside either end of this range in circumstances that it deems exceptional. The range includes the cash bonus and deferred compensation pools, as well as the amounts paid under sales commission plans (in which our NEOs do not participate). The range was determined based on historical data concerning the practices of our peer group as analyzed by Johnson Associates and based on data obtained from the McLagan and CaseyQuirk Performance Intelligence Study.

Over the past five years, the aggregate incentive pool has averaged approximately 44% of PCBOI. Utilizing its judgment, and applying discretion based upon the company s financial results and progress toward strategic objectives during 2013, the committee set the company-wide incentive pool for 2013 at approximately 41% of PCBOI (compared to 44% of PCBOI for 2012). The committee decided:

- the cash bonus pool would increase this year as a result of the increase in operating income although not at the same rate as the increase in operating income, given decisions made earlier in the year by the Board to return value to shareholders (through dividends and share buybacks) and to further invest in the long-term success of the company; and

- with respect to the deferred compensation pool, annual stock deferral awards would increase consistent with the cash bonus pool and long-term equity awards would generally remain unchanged from last year (on an average per person basis) to continue to tie the interests of our employees to the long-term interests of our shareholders.

For more information regarding the company s financial results and our achievement of strategic objectives for 2013, see *2013 Performance Highlights* and *Progress Against Our Strategic Objectives* above.

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Components of Executive Compensation and Their Purpose

The compensation program for our executive officers, including the NEOs, consists primarily of base salary and variable incentive compensation. The committee believes that a majority of our NEOs pay should be incentive compensation consisting of a combination of annual cash bonuses, annual stock deferral awards, and long-term equity awards all of which are linked to the achievement of the company s financial and strategic objectives. The following table further describes each component of executive compensation, as well as its purpose and key measures.

Incentive Type	Pay Element	What It Does	Key Measures
FIXED	Base salary	Provides competitive fixed pay	Experience, duties and scope of responsibility
		Limited to a reasonable base compensation for day-to-day performance of job responsibilities	Internal and external market factors
		Evaluated annually, generally remains static unless promotion or adjustment is necessary due to economic trends in industry	Reviewed annually
VARIABLE	Annual cash bonus	Provides a competitive annual incentive opportunity	Based upon company s annual financial results and progress against long-term strategic objectives
	Annual stock deferral award	Provides a competitive annual incentive opportunity	Based upon company s annual financial results and progress against long-term strategic objectives
	(time-based vesting)	Aligns executive with shareholder interests	
		Encourages retention by vesting in annual increments over four years	

	Long-term equity awards	Recognizes long-term potential for future contributions to company s long-term strategic objectives	Based upon company s annual financial results and progress against long-term strategic objectives
	(performance-based and time-based vesting)	Aligns executive with shareholder interests	30% performance-based vesting tied to adjusted diluted EPS and adjusted operating margin
		Encourages retention by vesting in annual increments over four years	70% time-based vesting

Our Performance-Based Long-Term Equity Awards

Long-term equity awards are four-year awards which generally vest in 25% increments each year. The committee believes that long-term equity awards should align employee and shareholder interests and that a portion of such awards should be paid only upon achievement of targeted company financial results. Therefore, the executive s ability to realize 30% of the long-term equity award is tied to the achievement each year of at least one of two financial measures:

adjusted operating margin of the company for the fiscal year, as reported in the company s SEC filings, must exceed certain thresholds; or

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adjusted diluted earnings per share of the company for the fiscal year, as reported in the company s SEC filings, must exceed certain thresholds.

Full vesting of the performance-based long-term equity award occurs in the event either target financial measure is achieved. Partial vesting of the award occurs on a pro-rated basis based on straight-line interpolation between a minimum threshold and the target financial measure. The award will vest based upon the higher achieved financial measure for that year. In addition, dividend equivalents are deferred for such performance awards and will only be paid if and to the extent an award vests. The target financial measures and minimum thresholds for the performance-based portion of our long-term equity awards granted in February 2013 are illustrated below.

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2013 Compensation Decision Process

The following flowchart depicts the committee s compensation decision process and related judgments in determining executive officers compensation for 2013.

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2013 Named Executive Officer Compensation

For 2013, our named executive officers are:

Name	Title
Martin L. Flanagan	President and Chief Executive Officer
Loren M. Starr	Senior Managing Director and Chief Financial Officer
G. Mark Armour	Senior Managing Director and Head of EMEA
Andrew T.S. Lo	Senior Managing Director and Head of Asia Pacific
Philip A. Taylor	Senior Managing Director and Head of the Americas

Set forth below is a summary of the 2013 compensation for each named executive officer, as well as the 2013 material goals and accomplishments of each named executive officer that the committee considered in determining each such officer s compensation for 2013. In addition, the following graphs show for each named executive officer the ratio of 2013 cash incentive compensation (annual cash bonus) to deferred incentive compensation (annual stock deferral award and long-term equity award). The tables set forth the elements of compensation paid to each such officer for 2013.

Note: *The graphs and tables below depict how the committee viewed its compensation decisions for our NEOs, but they differ substantially from the Summary Compensation Table (SCT) on page 41 required by SEC rules and are not a substitute for the information presented in the SCT. There are two principal differences between the SCT and the presentations below:*

The company grants both cash and deferred incentive compensation after our earnings for the year have been announced. In both the presentations below and the SCT, cash incentive compensation granted in 2014 for 2013 performance is shown as 2013 compensation. Our presentation below treats deferred incentive compensation similarly, so that equity awards granted in 2014 are shown as 2013 compensation. The SCT does not follow this treatment. Instead the SCT reports the value of equity awards in the year in which they are granted, rather than the year in which they were earned. As a result, equity awards granted in 2014 for 2013 performance are shown in our presentation below as 2013 compensation, but the SCT reports for 2013 the value of equity awards granted in 2013 in respect of 2012 performance.

The SCT reports All Other Compensation. These amounts are not part of the committee s compensation determinations and are not shown in the presentation below.

Martin L. Flanagan President and Chief Executive Officer

Mr. Flanagan has been our President and Chief Executive Officer since August 2005. His achievements in 2013 in respect of the company s strategic objectives set forth below include:

Achieve strong financial performance Mr. Flanagan led the company s strong financial performance in 2013, which included a 27.7% increase in annual adjusted operating income, 39.7% annual adjusted operating margin (an increase of 4.0 percentage points over 2012), a 29.1% increase in annual adjusted diluted EPS, total net inflows of $34.4 billion and $850 million return of capital to our shareholders.

Achieve strong investment performance Mr. Flanagan oversaw the company s continued focus on delivering investment excellence to clients and further enhanced the firm s strong investment culture. Investment performance across the company remained strong throughout 2013. Delivering strong, long-term investment performance to clients contributed to strong organic growth throughout the year.

Be instrumental to our clients success Mr. Flanagan continued to oversee the firm s efforts to further strengthen and deepen client relationships through superior client engagement. Under

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his leadership, the firm made solid progress building world-class fixed income capabilities through the creation of a global fixed income capability, which contributed to record AUM levels in Bank Loans, Stable Value and Investment Grade portfolios. The firm further expanded its ETF franchise, which contributed to record AUM levels for its ETF portfolio. Additionally, the firm continued to anticipate client demand by expanding its global investment strategies through the introduction of new multi-asset capabilities and liquid alternative products that we believe will benefit clients and our business over the long term.

Harness the power of our global platform Mr. Flanagan oversaw the company s efforts to launch a number of new capabilities globally that support the future growth of the firm. The company launched more funds during the fourth quarter of 2013 than it did in any full calendar year over the past five years.

Perpetuate a high-performance organization Mr. Flanagan successfully managed changes within the organization to drive increased collaboration across regions and more effectively leverage our investment capabilities globally. As part of efforts to further enhance employee engagement, he oversaw efforts to significantly reinvest in talent through additional focus on performance leadership and succession planning. Invesco s employee engagement scores continued to exceed benchmarks set by high-performing companies worldwide, as reflected in data from a third-party administered employee survey.

Invesco generally is near the median of our peer group in terms of market capitalization and annual revenues. Our CEO s total compensation earned in 2012 was at approximately the 60th percentile of 2012 CEO total disclosed compensation of our industry peer companies (the latest year for which data was available). When comparing performance on a variety of financial measures, Invesco generally ranges between the 50th and 70th percentiles. Further, our CEO s total compensation is strongly aligned with shareholders, with approximately 69% of his total incentive compensation deferred into Invesco stock. Therefore, the committee believes that our Chief Executive Officer s total compensation is well aligned with performance and our shareholder s interests.

For 2013, the Committee determined that Mr. Flanagan should see an increase to total compensation of 20% in recognition of the strong 2013 operating results and Mr. Flanagan s leadership in continuing to achieve the strategic objectives of the company. The changes to each component of Mr. Flanagan s compensation are detailed in the table below.

2013 Total Compensation*		**Change from Prior Year**	
$ 15,000,000		+20%	
Base Salary	**2013 Annual Cash Bonus**	**2013 Annual Stock Deferral Award**	**2013 Long-Term Equity Award**
$ 790,000	$ 4,475,000	$ 1,845,000	$ 7,890,000
Year-Over-Year Change from 2012 (%)			

0%	+33%	+23%	+15%

*Consists of salary, annual cash bonus, annual stock deferral award and long-term equity award (30% of which is performance based) earned in 2013. See note on p. 33 regarding differences from the SCT.

Loren M. Starr   Senior Managing Director and Chief Financial Officer

Mr. Starr has been our Chief Financial Officer since October 2005. His achievements in 2013 include:

Generated expense savings and improved margins   Mr. Starr oversaw efforts to expand the company s operating margin through the course of 2013 by implementing cost saving programs to more effectively deploy existing resources and by allocating capital to high growth areas.

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Supported the continued investment in the business for future growth Mr. Starr supported the continued growth of the business by leading the company in financing several important new product launches, with more than $250 million in seed capital. Mr. Starr also led the efforts to improve the firm s liquidity in part through the issuance of $1 billion of long-term senior debt at favorable rates of interest and paying down the outstanding credit facility debt.

Oversaw financial aspects of acquisitions and divestitures Mr. Starr led the finance team in supporting the acquisition of an interest in Religare Asset Management, one of the top 15 asset managers in the growing India market, as well as the divestiture of Atlantic Trust, a private wealth unit which was not core to the firm s asset management business.

Improved leadership, people development and training Mr. Starr continued to devote significant attention to people development in 2013 within the groups he manages, resulting in continued improvement in employees development, training and leadership skills. Employee survey results related to coordination, teamwork and empowerment exceeded high-performing company norms.

Focused on core financial systems Mr. Starr initiated the upgrade of the company s general accounting and financial systems to significantly improve the efficiency and effectiveness of our global financial processes.

2013 Total Compensation*	Change from Prior Year
$ 3,730,000	+9%

Base Salary	2013 Annual Cash Bonus	2013 Annual Stock Deferral Award	2013 Long-Term Equity Award
$ 450,000	$ 1,030,000	$ 450,000	$ 1,800,000
Year-Over-Year Change from 2012 (%)			
0%	+20%	+22%	+3%

*Consists of salary, annual cash bonus, annual stock deferral award and long-term equity award (30% of which is performance based) earned in 2013. See note on p. 33 regarding differences from the SCT.

G. Mark Armour Senior Managing Director and Head of EMEA

In early 2013, Mr. Armour assumed responsibility for Invesco s EMEA business (which includes Europe, Middle East and Africa). His accomplishments in 2013 include:

Achieved strong investment performance Mr. Armour further enhanced the robust investment culture in EMEA, which helped deliver strong investment performance to clients. As an example, the Invesco Perpetual investment team continued to build on its excellent long-term performance record. He oversaw the recruitment of additional investment talent, the establishment of a multi-asset team in the UK, and numerous fund launches, including the Global Targeted Returns fund in the UK market, which saw inflows of over $250 million in the first three months. Mr. Armour led the transition for the planned departure of a key investment professional announced in late 2013, while maintaining strong flows in the UK and across Europe.

Improved governance processes in light of changes in European regulations Mr. Armour oversaw efforts to position the firm ahead of changes in the regulatory environment within the UK and Europe, in part by increasing the frequency of Invesco governing body meetings and creating greater acceptance of the role of control functions across the organization.

Revised the strategy for sales across continental Europe Mr. Armour led the effort to further enhance our ability to serve clients across Europe. As a result, AUM for EMEA increased $34.6 billion to $171.9 billion, improved gross sales of $49.4 billion, and net sales of $8.6 billion, all significantly ahead of the prior year.

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As discussed in last year s Proxy Statement, Mr. Armour s compensation in 2012 was reduced due to a narrowing of the scope of his responsibilities for that year associated with the transition of an investment center to another executive officer, Karen Dunn Kelley, and the consolidation of North America retail and institutional sales under Philip Taylor. Mr. Armour s total compensation was therefore reduced from $4.7M in 2011 to $3.6M in 2012. Upon assuming the role as the head of Invesco s EMEA business in early 2013, the scope of Mr. Armour s responsibilities were greatly expanded. The committee determined that the scope of his role in 2013 warranted an increase in compensation to levels at least as high as 2011 compensation. In addition, the committee agreed to recognize his leadership of the EMEA region in 2013, including the achievements described above.

2013 Total Compensation*		Change from Prior Year**	
$ 5,034,807		+38%	
Base Salary	**2013 Annual Cash Bonus**	**2013 Annual Stock Deferral Award**	**2013 Long-Term Equity Award**
$ 469,790	$ 1,525,017	$ 690,000	$ 2,350,000
Year-Over-Year Change from 2012 (%)			
7%	+74%	+20%	+34%

*Consists of salary, annual cash bonus, annual stock deferral award and long-term equity award (30% of which is performance based) earned in 2013. See note on p. 33 regarding differences from the SCT.

**Changes in components involving cash compensation include the effect of foreign exchange rate differences.

Andrew T.S. Lo Senior Managing Director and Head of Asia Pacific

Mr. Lo has been head of the firm s Asia Pacific business since 2001. His accomplishments in 2013 include:

Achieved strong investment performance and brought the best of Invesco to clients Mr. Lo oversaw the improvement of relative performance of Asia Pacific managed assets, for the one-, three-, and five-year periods. Investment performance in Invesco s Greater China business and its joint venture in China (Invesco Great Wall) was particularly strong, contributing to a robust growth in AUM. Invesco Great Wall maintained its leadership position and finished the year as the largest active manager overall in Chinese equities among the country s approximately 90 fund management companies. The joint venture was awarded the Most Respected Fund Management Company for 2013 by *Moneyweek*. Mr. Lo also oversaw the successful launch of new ETFs in Greater China.

Successfully integrated investment team in India Mr. Lo led the acquisition of an interest in Religare Asset Management, expanding Invesco s capabilities into the growing India market.

Strengthened sales and marketing in Japan, Australia and Korea Mr. Lo further enhanced the organizational structure in Japan to place greater emphasis on client engagement, marketing and product management. These efforts, combined with the improving investment performance, helped drive strong gains in retail sales for the business. Mr. Lo hired a new head of the Australian team and combined the market s retail and institutional sales teams under unified leadership, which then achieved an increase in institutional sales with new and existing clients. Mr. Lo oversaw the implementation of a new sales office in Seoul, South Korea to begin serving this rapidly growing asset management market in 2014.

2013 Total Compensation*		Change from Prior Year**	
$ 4,417,372		+20%	
Base Salary	2013 Annual Cash Bonus	2013 Annual Stock Deferral Award	2013 Long-Term Equity Award
$ 462,389	$ 1,324,983	$ 530,000	$ 2,100,000
Year-Over-Year Change from 2012 (%)			
0%	+29%	+20%	+20%

* Consists of salary, annual cash bonus, annual stock deferral award and long- term equity award (30% of which is performance based) earned in 2013. See note on p. 33 regarding differences from the SCT.
** Changes in components involving cash compensation include the effect of foreign exchange rate differences.

Philip Taylor Senior Managing Director and Head of the Americas

Mr. Taylor has been head of the firm s Americas business since 2012. His achievements in 2013 include:

Increased overall sales and distribution effectiveness Mr. Taylor increased overall retail and institutional distribution effectiveness in the U.S., Invesco s largest market, by further strengthening the sales culture and leadership, including improved objective setting and monitoring, enhanced talent management, and increased collaboration with marketing, product management, product development and investments. This effort, coupled with the strong investment performance of the U.S.-based investment teams, led to an increase in net flows of 18% over the prior year. Independent research showed continued high levels of Invesco brand awareness. Additionally, Mr. Taylor s leadership resulted in employee survey scores that showed further improved engagement across the sales organization, including customer service orientation and leadership metrics.

Brought the best of Invesco to our clients around the world Mr. Taylor directed continued growth of Invesco s ETF franchise to record high asset levels. In the U.S., share of net flows increased to 7% of industry flows, a share that is higher than share of assets. Mr. Taylor also oversaw the expansion of Invesco PowerShares ETFs in Canada and Greater China.

Built on positive momentum in Canada Mr. Taylor directed efforts to further strengthen the effectiveness of Canada s investment leadership, culture and reputation in the Canadian marketplace. As a result, investment performance improved versus peers, net sales increased and Invesco Canada was nominated as Morningstar Advisors Choice Fund Company of the Year.

2013 Total Compensation*	Change from Prior Year**

$ 7,425,174		+9%	
Base Salary	**2013 Annual Cash Bonus**	**2013 Annual Stock Deferral Award**	**2013 Long-Term Equity Award**
$ 616,453	$ 2,463,721	$ 1,045,000	$ 3,300,000
Year-Over-Year Change from 2012 (%)			
-3%	+17%	+20%	+3%

* Consists of salary, annual cash bonus, annual stock deferral award and long- term equity award (30% of which is performance based) earned in 2013. See note on p. 33 regarding differences from the SCT.

** Changes in components involving cash compensation include the effect of foreign exchange rate differences.

Other Compensation Policies and Practices

Share Ownership Guidelines

All equity awards made to our executive officers are subject to our Executive Officer Stock Ownership Policy. The policy requires executive officers to achieve a certain ownership level within three years. Until such level is achieved, each executive officer is required to retain 100% of the shares received from our share incentive plans. All of our executive officers have achieved their respective ownership level requirements.

Stock Ownership Policy	Ownership level required
Chief Executive Officer	250,000 shares
All other executive officers	100,000 shares

Clawback Policy

Our executive officers long-term equity awards subject to achievement of target financial results are also subject to a clawback policy. All equity awards that are subject to achievement of target financial results in respect of our executive officers, including our named executive officers, are also subject to forfeiture or clawback provisions. The provisions provide that any shares received (whether vested or unvested), any dividends or other earnings thereon, and the proceeds from any sale of such shares, are subject to recovery by the company in the event that:

- the company issues a restatement of financial results to correct a material error;
- the committee determines, in good faith, that fraud or willful misconduct on the part of the employee was a significant contributing factor to the need to issue such restatement; and
- some or all of the shares granted or received prior to such restatement would not have been granted or received, as determined by the committee in its sole discretion, based upon the restated financial results.

Benefits and Perquisites

As a general practice, the company provides no material benefits and limited perquisites to executive officers that it does not provide to other employees. All executive officers are entitled to receive medical, life and disability insurance coverage and other corporate benefits available to most of the company s employees. Executive officers are also eligible to participate in the Employee Stock Purchase Plan on similar terms to the company s other employees. In addition, all of the executive officers may participate in the 401(k) Plan or similar plans in the executive officer s home country.

The company provides certain limited perquisites to its executive officers which it believes aid the executives in their execution of company business. For example, personal use of company aircraft may be provided to enable named executive officers to devote additional and efficient time to company business when traveling. The committee believes

the value of perquisites and other benefits are reasonable in amount and consistent with its overall compensation plan. For additional information on perquisites and other benefits, see the *Summary Compensation Table* in this Proxy Statement.

Award Maximums for Named Executive Officers

In determining compensation for the named executive officers, the committee considers the potential impact of Section 162(m) of the Internal Revenue Code. Section 162(m) generally disallows a tax deduction to public corporations for compensation greater than $1 million paid per fiscal year to each of the corporation s covered employees (generally, the Chief Executive Officer and the next three most highly compensated executive officers as of the end of any fiscal year). However, compensation which

qualifies as performance-based is excluded from the $1 million per executive officer limit if, among other requirements, the compensation is payable only upon attainment of pre-established, objective performance goals under a plan approved by the company s shareholders.

As part of our compensation program for executive officers, the company maintains the Executive Incentive Bonus Plan (Bonus Plan). The Bonus Plan provides for annual performance-based awards to eligible employees. For each executive officer, the committee determines on an annual basis an award maximum under the Bonus Plan. Award maximums are expressed as a percentage of PCBOI an objectively determined performance criteria that is intended to qualify for the performance-based exemption to the $1 million deduction limit under Section 162(m). Award maximums pertain to the cumulative value of an executive officer s annual variable compensation consisting of the annual cash bonus, annual stock deferral award and long-term equity award. In the event the committee determines to grant additional compensation that is not performance-based compensation to an executive subject to the provisions of Section 162(m), the additional compensation will be subject to the $1 million deduction limitation.

In February 2013, the committee established three levels of award maximums in respect of our named executive officers one each for the Chief Executive Officer, Senior Managing Directors of business components, and Senior Managing Directors of staff functions. The three levels of award maximums were established after consideration of:

- prior-year compensation levels in light of the company s 2012 PCBOI;
- projected maximum award levels based on the company s estimated 2013 PCBOI;
- market data for industry comparative compensation levels; and
- comparisons for job roles and levels of responsibility.

Employment Agreements, Post-employment Compensation and Change-in-Control Arrangements

Employment Agreements

Chief Executive Officer Our Chief Executive Officer has an employment agreement with the company that was amended and restated as of January 1, 2011. Under the amended and restated employment agreement, Mr. Flanagan continues to be employed as President and Chief Executive Officer of the company. The agreement terminates upon the earlier of December 31, 2025 (the year in which Mr. Flanagan reaches age 65) or the occurrence of certain events, including death, disability, termination by the company for cause or termination by Mr. Flanagan for good reason.

The terms of Mr. Flanagan s amended employment agreement provide:

- an annual base salary of $790,000;
- the opportunity to receive an annual cash bonus award based on the achievement of performance criteria;

the opportunity to receive share awards based on the achievement of performance criteria;

eligibility to participate in incentive, savings and retirement plans, deferred compensation programs, benefit plans, fringe benefits and perquisites, and paid vacation, all as provided generally to other U.S.-based senior executives of the company;

post-employment compensation of one times the sum of base, bonus and share awards, subject to certain agreed minimums described below; and

certain stipulations regarding termination of employment that are described in *Potential Payments Upon Termination or Change in Control for 2013* below.

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Post-employment Compensation

Chief Executive Officer Pursuant to Mr. Flanagan s amended and restated employment agreement, in the event of his termination without cause or resignation for good reason he is entitled to receive the following payments and benefits (provided that he has not breached certain restrictive covenants):

- his then-effective base salary through the date of termination;
- a prorated portion of the greater of $4,750,000 or his most recent annual cash bonus;
- immediate vesting and exercisability of all outstanding share-based awards;
- any compensation previously deferred under a deferred compensation plan (unless a later payout date is stipulated in his deferral arrangements);
- a cash severance payment generally equal to the sum of (i) his base salary, (ii) the greater of $4,750,000 or his most recent annual cash bonus, and (iii) his most recently made annual equity grant (unless the value thereof is less than 50% of the previously-made grant, in which case the value of the previously-made grant will be used);
- continuation of medical benefits for him, his spouse and his covered dependents for a period of up to 36 months following termination;
- any accrued vacation; and
- any other vested amounts or benefits under any other plan or program.

Other Named Executive Officers Our other named executive officers are parties to employment arrangements that create salary continuation periods of six or twelve months in the event of involuntary termination of service without cause. (See *Potential Payments Upon Termination or Change in Control for 2013* below.)

Change-In-Control Arrangements

Generally, all participants who hold equity awards, including our named executive officers, are eligible, under certain circumstances, for accelerated vesting in the event of a change of control of the company that is followed by involuntary termination of employment other than for cause or by voluntary termination for good reason.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this Proxy Statement. Based on this review and discussion, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2013.

Respectfully submitted by the Compensation Committee:

Sir John Banham (Chairman)

Rex D. Adams

C. Robert Henrikson

Ben F. Johnson, III

Denis Kessler

Edward P. Lawrence

G. Richard Wagoner, Jr.

Phoebe A. Wood

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Summary Compensation Table for 2013

The following table sets forth information about compensation earned by our named executive officers during 2011, 2012 and 2013 in accordance with SEC rules. The information presented below may be different from compensation information presented in this Proxy Statement under the caption Compensation Discussion and Analysis, as such section describes compensation decisions made in respect of the indicated fiscal year, regardless of when such compensation was actually paid or granted. For an explanation of the principal differences between the presentation in the Compensation Discussion and Analysis and the table below, please see the note on page 33.

Name and Principal Position	Year	Salary ($) (1)	Share Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	All Other Compensation ($) (4)	Total ($)
Martin L. Flanagan	2013	790,000	8,349,960	4,475,000	766,802	14,381,762
President and Chief Executive Officer	2012	790,000	8,349,969	3,375,000	728,966	13,243,935
	2011	790,000	8,349,978	3,750,000	530,480	13,420,458
Loren M. Starr	2013	450,000	2,118,525	1,030,000	177,329	3,775,854
Senior Managing Director and	2012	450,000	2,154,972	859,950	149,516	3,614,438
Chief Financial Officer	2011	450,000	2,154,984	945,000	117,622	3,667,606
G. Mark Armour	2013	469,790	2,324,969	1,525,017	346,359	4,666,135
Senior Managing Director and	2012	440,969	2,849,983	874,691	223,981	4,389,624
Head of EMEA	2011	443,670	3,099,993	1,350,000	238,918	5,132,581
Andrew T.S. Lo (5)	2013	462,389	2,191,742	1,324,983	219,311	4,198,425
Senior Managing Director and	2012					
Head of Invesco Asia Pacific	2011					
Philip A. Taylor	2013	616,453	4,069,962	2,463,721	307,706	7,457,842
Senior Managing Director and	2012	638,434	4,069,953	2,105,860	311,576	7,125,823
Head of Americas	2011	647,365	4,069,964	2,135,409	257,391	7,110,129

(1) For each of the named executive officers, includes salary that was eligible for deferral, at the election of the named executive officer, under our 401(k) plan or similar plan in the named executive officer s country. For Messrs. Armour, Lo and Taylor, base salary is converted to U.S. dollars using an average annual exchange rate.

(2) For share awards granted in 2013, includes time-based and performance-based equity awards that generally vest in four equal annual installments on each anniversary of the date of grant. The value of performance-based awards is based on the grant date value and reflects the probable outcome of such conditions and represents the highest level of achievement. See, *Grants of Plan-Based Share Awards for 2013* for information about the number of shares underlying each of the time-based and performance-based equity awards.

Grant date fair values were calculated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 718 Compensation Stock Compensation. The grant date fair value was calculated by multiplying the number of shares granted by the closing price of the company s common shares on the date of grant.

The amounts disclosed do not reflect the value actually realized by the named executive officers. For additional information, please see Note 11 *Share-Based Compensation* to the financial statements in our Annual Report.

(3) Reflects annual cash bonus award earned for fiscal year by the named executive officers under the Executive Incentive Bonus Plan and paid in February of the following year. For 2013, for Messrs. Armour, Lo and Taylor, annual cash bonus awards are converted to U.S. dollars using an average annual exchange rate.

(4) The following table reflects the items that are included in the All Other Compensation column for 2013.

(5) Mr. Lo was not an NEO in 2012 or 2011.

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All Other Compensation Table for 2013

Name	Dividends Paid on Unvested Stock Awards ($) (1)	Insurance Premiums ($)	Company Contributions to Retirement and 401(k) Plans ($) (2)	Tax Consultation ($) (3)	Perquisites ($) (4)	Total All Other Compensation ($)
Martin L. Flanagan	585,288	4,680	22,050		154,784	766,802
Loren M. Starr	150,881	4,398	22,050			177,329
G. Mark Armour	212,534	2,043	21,580	110,202		346,359
Andrew T.S. Lo	159,284	6,604	53,423			219,311
Philip A. Taylor	285,329	2,003	13,043	7,331		307,706

(1) Includes dividends and dividend equivalents paid at the same rate as on our other shares on (i) unvested time-based awards, and (ii) performance-based awards to the extent that the award vested.

(2) Amounts of matching contributions paid by the company to our retirement plans are calculated on the same basis for all plan participants, including the named executive officers.

(3) With respect to Mr. Armour, includes fees paid in 2013 for services provided in calendar years 2011, 2012 and 2013.

(4) Perquisites include the following:

With respect to Mr. Flanagan, includes $151,207 for his personal use of company-provided aircraft. With respect to the company-provided aircraft, the company pays direct operating expenses, monthly lease payments and management fees, as well as fees of a third-party supplier. We calculate the aggregate incremental cost to the company for personal use based on the average variable costs of operating the aircraft. Variable costs include fuel, repairs, travel expenses for the flight crews, and other miscellaneous expenses. This methodology excludes fixed costs that do not change based on usage, such as depreciation, maintenance, taxes and insurance.

Mr. Flanagan s total also includes certain amounts for technology support and amounts paid by the company for the officer s and his spouse s incidentals and recreational activities in conjunction with a company-sponsored off-site business meeting.

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Grants of Plan-Based Share Awards for 2013

The Compensation Committee granted share awards to each of the named executive officers during 2013. Share awards are subject to transfer restrictions and subject to forfeiture prior to vesting upon a recipient s termination of employment for any reason other than death, disability, involuntary termination other than for cause or unsatisfactory performance, or (in the case of Mr. Flanagan only) voluntary termination for good reason. All share awards immediately become vested upon the recipient s termination of employment during the 24-month period following a change in control (i) by the company other than for cause or disability, or (ii) by the recipient for good reason.

The following table presents information concerning plan-based awards granted to each of the named executive officers during 2013.

Name	Grant Date	Committee Action Date	Vesting	Estimated Future Payout Under Equity Incentive Plan Awards (1) Threshold (#)	Maximum (#)	All Other Share Awards (#) (2)	Closing Market Price on Date of Grant ($/Share)	Grant Date Fair Value of Share Awards ($) (3)
Martin L. Flanagan	02/28/13	02/14/13	4-year ratable	-	76,707	-	26.79	2,054,980
	02/28/13	02/14/13	4-year ratable	-	-	234,975	26.79	6,294,980
Loren M. Starr	02/28/13	02/14/13	4-year ratable	-	19,596	-	26.79	524,976
	02/28/13	02/14/13	4-year ratable	-	-	59,483	26.79	1,593,549
G. Mark Armour	02/28/13	02/14/13	4-year ratable	-	19,596	-	26.79	524,976
	02/28/13	02/14/13	4-year ratable	-	-	67,189	26.79	1,799,993
Andrew T.S. Lo	02/28/13	02/14/13	4-year ratable	-	19,596	-	26.79	524,976
	02/28/13	02/14/13	4-year ratable	-	-	62,216	26.79	1,666,766
Philip A. Taylor	02/28/13	02/14/13	3-year ratable	-	26,875	-	26.79	719,981
	02/28/13	02/14/13	4-year cliff	-	8,958	-	26.79	239,984
	02/28/13	02/14/13	3-year ratable	-	-	87,066	26.79	2,332,498
	02/28/13	02/14/13	4-year cliff	-	-	29,022	26.79	777,499

(1) Performance-based Equity Awards. Performance-based equity awards were granted under the 2011 Global Equity Incentive Plan. For each of the named executive officers other than Mr. Taylor, performance-based equity awards are four-year awards that vest 25% each year. With respect to Mr. Taylor, performance-based equity awards are comprised of a 3-year award that vests ratably and a 4-year award that vests 100% on the fourth anniversary of the date of grant.

Performance-based equity awards are tied to the achievement of specified levels of adjusted operating margin or adjusted diluted earnings per share. Full vesting of the performance-based long-term equity award occurs in the event that either target financial measure is achieved. Partial vesting of the award occurs on a pro-rated basis based on straight-line interpolation between a minimum threshold and the target financial measure. The award will vest based upon the higher achieved financial measure for that year. Dividend equivalents are deferred for such performance-based equity awards and will only be paid at the same rate as on our shares if and to the extent an award

vests. The target financial measures and minimum thresholds for the performance-based portion of our long-term equity awards are illustrated below.

Adjusted Diluted EPS	Vesting		Adjusted Operating Margin	Vesting
Equal to or greater than $1.10	100%	or	Equal to or greater than 25.5%	100%
Less than $0.75	0%		Less than 22%	0%

(2) Time-based Equity Awards**.** Time-based equity awards were granted under the 2011 Global Equity Incentive Plan. For each of the named executive officers other than Mr. Taylor, time-based equity awards are four-year awards that vest 25% each year. With respect to Mr. Taylor, time-based equity awards are comprised of a 3-year award that vests ratably and a 4-year award that vests 100% on the fourth anniversary of the date of grant. Dividends and dividend equivalents are paid on unvested awards at the same time and rate as on our shares.

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(3) The grant date fair value is the total amount that the company will recognize as expense under applicable accounting requirements if the share awards fully vest. This amount is included in our Summary Compensation Table each year. Grant date fair values were calculated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 718 *Compensation Stock Compensation*. The grant date fair value is calculated by multiplying the number of shares granted by the closing price of our common shares on the day the award was granted. With respect to the performance-based equity awards, the grant date fair value also represents the probable outcome of such performance conditions and represents the highest level of achievement.

Outstanding Share Awards at Fiscal Year-End for 2013

The following table provides information as of December 31, 2013 about the outstanding share awards held by our named executive officers.

Name		Date of Grant	Number of Shares or Units that Have Not Vested (#)	Market Value of Shares or Units that Have Not Vested ($)	Equity Incentive Plan Awards that Have Not Vested (#)	Equity Incentive Plan Awards that Have Not Vested ($)
Martin L. Flanagan	(1)	02/26/10	83,017	3,021,819	-	-
	(2)	02/28/11	155,551	5,662,056	-	-
	(3)	02/28/12	189,153	6,885,169	-	-
	(4)	02/28/12	-	-	61,749	2,247,664
	(5)	02/28/13	234,975	8,553,090	-	-
	(6)	02/28/13	-	-	76,707	2,792,135
Loren M. Starr	(1)	02/26/10	21,505	782,782	-	-
	(2)	02/28/11	40,145	1,461,278	-	-
	(3)	02/28/12	48,978	1,782,799	-	-
	(4)	02/28/12	-	-	15,775	574,210
	(5)	02/28/13	59,483	2,165,181	-	-
	(6)	02/28/13	-	-	19,595	713,258
G. Mark Armour	(1)	02/26/10	37,245	1,355,718	-	-
	(2)	02/28/11	57,750	2,102,100	-	-
	(3)	02/28/12	67,458	2,455,471	-	-
	(4)	02/28/12	-	-	21,184	771,098
	(5)	02/28/13	67,189	2,445,680	-	-
	(6)	02/28/13	-	-	19,596	713,294
Andrew T. S. Lo	(1)	02/26/10	24,133	878,441	-	-
	(2)	02/28/11	41,403	1,507,069	-	-
	(3)	02/28/12	51,006	1,856,618	-	-
	(4)	02/28/12	-	-	15,775	574,210
	(5)	02/28/13	62,216	2,264,662	-	-
	(6)	02/28/13	-	-	19,596	713,294
Philip A. Taylor	(7)	02/26/10	47,448	1,727,107	-	-

(7)	02/28/11	37,909	1,379,888	-	-
(3)	02/28/12	93,449	3,401,544	-	-
(4)	02/28/12	-	-	28,846	1,049,994
(5)	02/28/13	116,088	4,225,603	-	-
(6)	02/28/13	-	-	35,833	1,304,321

(1) February 26, 2010. Share award vests in four equal installments. As of December 31, 2013, the unvested share award represents 25% of the original grant.

(2) February 28, 2011. Share award vests in four equal installments. As of December 31, 2013, the unvested share award represents 50% of the original grant.

(3) February 28, 2012. Share award vests in four equal installments. As of December 31, 2013, the unvested share award represents 75% of the original grant.

(4) February 28, 2012. Performance-based share award vests in four equal installments. As of December 31, 2013, the unvested share award represents 75% of maximum award.

(5) February 28, 2013. Share award vests in four equal installments. As of December 31, 2013, the unvested share award represents 100% of the original grant.

(6) February 28, 2013. Performance-based share award vests in four equal installments. As of December 31, 2013, the unvested share award represents 100% of the maximum award.

(7) February 26, 2010 and February 28, 2011 awards. Share awards vest in one installment. As of December 31, 2013, the unvested share award represents 100% of the original grant.

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Option Exercises and Shares Vested for 2013

The following table provides information about share options exercised by the named executive officers during 2013 and equity awards held by our named executive officers that vested in 2013:

	Option Awards		Share Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Martin L. Flanagan			330,929	8,739,843
Loren M. Starr			87,878	2,320,870
G. Mark Armour			156,909	4,139,325
Andrew T.S. Lo	50,000	1,112,554	96,840	2,556,180
Philip A. Taylor			153,766	4,401,696

Potential Payments upon Termination or Change in Control for 2013

The following tables summarize the estimated payments to be made under each agreement, plan or arrangement in effect as of December 31, 2013 which provides for payments to a named executive officer at, following or in connection with a termination of employment or a change in control. However, in accordance with SEC regulations, we do not report any amount to be provided to a named executive officer under any arrangement which does not discriminate in scope, terms or operation in favor of our named executive officers and which is available generally to all salaried employees. In accordance with SEC regulations, this analysis assumes that the named executive officer s date of termination is December 31, 2013, and the price per share of our common shares on the date of termination is the closing price of our common shares on the NYSE on that date, which was $36.40.

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Martin L. Flanagan

enefit and Payments Upon Termination(1)	Voluntary Termination without Good Reason ($)	Termination by Executive for Good Reason or Involuntary Termination by the Company without Cause ($)	Involuntary Termination for Cause ($)	Retirement ($)(2)	Death or Disability ($)	Change in Control ($)(3)	Qualified Termination Following Change in Contro ($)(4)
alary Continuation							
nnual Cash Bonus (5)	4,750,000	4,750,000			4,750,000		4,750,000
everance Payment (6)		13,889,960					13,889,960
hare Awards		29,161,933			29,161,933	29,161,933	29,161,933
ptions							
elfare Benefits (7)		49,341					49,341

(1) Pursuant to the terms of the second amended and restated master employment agreement effective January 1, 2011 between the company and Mr. Flanagan (the Flanagan Agreement), Mr. Flanagan is entitled to certain benefits upon termination of employment. Following any notice of termination, Mr. Flanagan would continue to receive salary and benefits compensation, and the vesting periods with respect to any outstanding share awards would continue to run, in the normal course until the date of termination. In accordance with SEC rules, the information presented in this table assumes a termination date of December 31, 2013 and that the applicable notice had been given prior to such date.

(2) Pursuant to the terms of the 2008 Global Equity Incentive Plan, in the event of retirement, restricted stock units would continue to vest provided the age, years of service and holding period requirements are met. With respect to Mr. Flanagan s share awards, no benefit would be payable in the event of retirement.

(3) Payment would only be made in the event that the share award was not assumed, converted or replaced in connection with a change in control.

(4) Assumes termination by Mr. Flanagan for good reason or a termination by the company other than for cause or disability following a change in control.

(5) Pursuant to the terms of the Flanagan Agreement, Mr. Flanagan is entitled to an annual cash bonus that is equal to the greater of $4,750,000 or his most recent annual cash bonus upon certain terminations of employment.

(6) Pursuant to the terms of the Flanagan Agreement, Mr. Flanagan s severance payment is equal to the sum of (i) his base salary, (ii) the greater of $4,750,000 or his most recent annual cash bonus, and (iii) the fair market value at

grant of his most recent equity award.

(7) Pursuant to the terms of the Flanagan Agreement, Mr. Flanagan and his covered dependents are entitled to medical benefits for a period of 36 months following termination. Represents cost to the company for reimbursement of such medical benefits.

Loren M. Starr

Benefit and Payments Upon Termination(1)	Voluntary Termination without Good Reason ($)	Termination by Executive for Good Reason or Involuntary Termination by the Company without Cause ($)	Involuntary Termination for Cause ($)	Retirement ($)(2)	Death or Disability ($)	Change in Control ($)(3)	Qualified Termination Following Change in Control ($)(4)
Salary Continuation							
Annual Cash Bonus							
Severance Payment							
Share Awards		7,479,508			7,479,508	7,479,508	7,479,508
Options							
Welfare Benefits							

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G. Mark Armour

Benefit and Payments Upon Termination(1)	Voluntary Termination without Good Reason ($)	Termination by Executive for Good Reason or Involuntary Termination by the Company without Cause ($)	Involuntary Termination for Cause ($)	Retirement ($)(2)	Death or Disability ($)	Change in Control ($)(3)	Qualified Termination Following Change in Control ($)(4)
Salary Continuation							
Annual Cash Bonus							
Severance Payment							
Share Awards		9,843,361		1,355,718	9,843,361	9,843,361	9,843,361
Options							
Welfare Benefits							

Andrew T.S. Lo

Benefit and Payments Upon Termination(1)	Voluntary Termination without Good Reason ($)	Termination by Executive for Good Reason or Involuntary Termination by the Company without Cause ($)	Involuntary Termination for Cause ($)	Retirement ($)(2)	Death or Disability ($)	Change in Control ($)(3)	Qualified Termination Following Change in Control ($)(4)
Salary Continuation							
Annual Cash Bonus							
Severance Payment							
Share Awards		7,794,296			7,794,296	7,794,296	7,794,296
Options							
Welfare Benefits							

Philip A. Taylor

Benefit and Payments Upon Termination(1)	Voluntary Termination without Good Reason ($)	Termination by Executive for Good Reason or Involuntary Termination by the Company without Cause ($)	Involuntary Termination for Cause ($)	Retirement ($)(2)	Death or Disability ($)	Change in Control ($)(3)	Qualified Termination Following Change in Control ($)(4)
Salary Continuation							
Annual Cash Bonus							
Severance Payment							

Share Awards	13,088,457		1,727,107	13,088,457	13,088,457	13,088,457
Options						
Welfare Benefits						

(1) Each of Messrs. Starr, Armour, Lo and Taylor is a party to an agreement that provides for a termination notice period of either six or twelve months. Following any notice of termination, the employee would continue to receive salary and benefits compensation, and the vesting periods with respect to any outstanding share awards would continue to run, in the normal course until the date of termination. In accordance with SEC rules, the information presented in this table assumes a termination date of December 31, 2013 and that the applicable notice had been given prior to such date.

(2) Pursuant to the terms of the 2008 Global Equity Incentive Plan, in the event of retirement, restricted stock units would continue to vest provided the age, years of service and holding period requirements are met. This analysis assumes a retirement date of December 31, 2013 and that the previously described requirements had been met. With respect to Messrs. Armour and Taylor, a benefit in the respective amount of $1,355,718 and $1,727,107 would be payable on the scheduled 2014 vesting date with respect to their award that was granted in February 2010. These values represent an assumed value of $36.40, which was the closing price of our common shares on the NYSE on December 31, 2013. Actual value to be received by the named executive officer will be the closing price of our common shares on the NYSE on the scheduled date of distribution.

(3) Payment would only be made in the event that the share award was not assumed, converted or replaced in connection with a change in control.

(4) Assumes termination for good reason or a termination by the company other than for cause or disability following a change in control.

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Information Regarding Equity Compensation Plans

The following table sets forth information, as of December 31, 2013, about common shares that may be issued under our existing equity compensation plans.

Name of Plan	Approved by Security Holders(1)	Active/ Inactive Plan(2)	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights ($)(3)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Outstanding Options)(4)
2011 Global Equity Incentive Plan	ü	Active		N/A	17,705,846
2000 Share Option Plan	ü	Inactive	1,125,622		
Subtotal Approved Plans			1,125,622	12.15	17,705,846
2010 Global Equity Incentive Plan (ST)		Active		N/A	1,763,988
Subtotal Unapproved Plans					1,763,988
Total			1,125,622		19,469,834

(1) With respect to the 2010 Global Equity Incentive Plan (ST), shares are issued only as employment inducement awards in connection with a strategic transaction and, as a result, do not require shareholder approval under the rules of the New York Stock Exchange or otherwise.

(2) With respect to the 2000 Share Option Plan, no further grants will be made under this plan.

(3) Share options were granted in Pounds Sterling (£) and in this table have been converted to U.S. dollars using the exchange rate of $1.66/£1 as of December 31, 2013. With respect to the 2000 Share Option Plan, outstanding stock options have a weighted average remaining contractual life of 1.4 years.

(4) Excludes unvested restricted stock awards, unvested deferred share awards and unvested restricted stock units.

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Compensation Committee Interlocks and

Insider Participation

During fiscal year 2013, the following directors served as members of the Compensation Committee: Sir John Banham (Chairman), Rex D. Adams, C. Robert Henrikson, Ben F. Johnson III, Denis Kessler, Edward P. Lawrence, G. Richard Wagoner, Jr. and Phoebe A. Wood. No member of the Compensation Committee was an officer or employee of the company or any of its subsidiaries during 2013, and no member of the Compensation Committee was formerly an officer of the company or any of its subsidiaries or was a party to any disclosable related person transaction involving the company. During 2013, none of the executive officers of the company has served on the board of directors or on the compensation committee of any other entity that has or had executive officers serving as a member of the Board of Directors or Compensation Committee of the company.

* * *

Report of the Audit Committee

Membership and Role of the Audit Committee

The Audit Committee of the Board consists of J. Thomas Presby (Chairman), Sir John Banham, C. Robert Henrikson, Ben F. Johnson III, Denis Kessler, Edward P. Lawrence, G. Richard Wagoner, Jr. and Phoebe A. Wood. Each of the members of the Audit Committee is independent as such term is defined under the NYSE listing standards and applicable law. The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its responsibility to oversee (i) the company s financial reporting, auditing and internal control activities, including the integrity of the company s financial statements, (ii) the independent auditor s qualifications and independence, (iii) the performance of the company s internal audit function and independent auditor, and (iv) the company s compliance with legal and regulatory requirements. The Audit Committee s function is more fully described in its written charter, which is available on the corporate governance section of the company s Web site.

Review of the Company s Audited Consolidated Financial Statements for the Fiscal Year Ended December 31, 2013

The Audit Committee has reviewed and discussed the audited financial statements of the company for the fiscal year ended December 31, 2013 with the company s management. The Audit Committee has also performed the other reviews and duties set forth in its charter. The Audit Committee has discussed with PricewaterhouseCoopers LLP (PwC), the company s independent registered public accounting firm, the matters required to be discussed by professional auditing standards. The Audit Committee has also received the written disclosures and the letter from PwC required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor s communications with the audit committee concerning independence, and has discussed the independence of PwC with that firm. Based on the Audit Committee s review and discussions noted above, the Audit Committee recommended to the Board of Directors that the company s audited consolidated financial statements be included in the company s Annual Report for filing with the Securities and Exchange Commission. Respectfully submitted by the Audit Committee:

J. Thomas Presby (Chairman)

Sir John Banham

C. Robert Henrikson

Ben F. Johnson III

Denis Kessler

Edward P. Lawrence

G. Richard Wagoner, Jr.

Phoebe A. Wood

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Fees Paid to Independent Registered

Public Accounting Firm

The Audit Committee of the Board, with the approval of the shareholders, engaged PwC to perform an annual audit of the company s consolidated financial statements for fiscal year 2013. The following table sets forth the approximate aggregate fees billed or expected to be billed to the company by PwC for fiscal year 2013 and by Ernst & Young LLP (EY), our former independent auditors, for fiscal year 2012 for the audit of the company s annual consolidated financial statements and for other services rendered by PwC in 2013 and EY in 2012.

	Fiscal Year	
	2013	2012
	($ in millions)	
Audit Fees(1)	3.9	4.8
Audit-Related Fees(2)	1.4	1.8
Tax Fees(3)	0.3	0.6
All Other Fees(4)		
TOTAL FEES	5.6	7.2

(1) The 2013 Audit Fees amount includes approximately $2.5 million (2012: $2.7 million) for audits of the company s consolidated financial statements and $1.4 million (2012: $1.6 million) for statutory audits of subsidiaries. These amounts do not include fees paid to PwC in 2013 and EY in 2012 associated with audits conducted on certain of our affiliated mutual funds, unit trusts and partnerships.

(2) Audit-Related Fees consist of attest services not required by statute or regulation, audits of employee benefit plans and accounting consultations in connection with new accounting pronouncements and acquisitions.

(3) Tax Fees consist of compliance and advisory services.

(4) All Other Fees consist principally of transaction-related services.

Pre-Approval Process and Policy

The Audit Committee has adopted policies and procedures for pre-approving all audit and non-audit services provided by our independent auditors. The policy is designed to ensure that the auditor s independence is not impaired. The policy sets forth the Audit Committee s views on audit, audit-related, tax and other services. It provides that, before the company engages the independent auditor to render any service, the engagement must either be specifically approved by the Audit Committee or fall into one of the defined categories that have been pre-approved. The policy defines the services and the estimated range of fees for such services that the committee has pre-approved. The term of any such categorical approval is 12 months, unless the committee specifically provides otherwise, and the policy requires the related fee levels to be set annually. Where actual invoices in respect of any service are materially in excess of the estimated range, the committee must approve such excess amount prior to payment. The policy also prohibits the company from engaging the auditors to provide certain defined non-audit services that are prohibited under SEC rules.

Under the policy, the Audit Committee may delegate pre-approval authority to one or more of its members, but may not delegate such authority to the company s management. Under the policy, our management must inform the Audit Committee of each service performed by our independent auditor pursuant to the policy. Requests to the Audit Committee for separate approval must be submitted by both the independent auditor and our Chief Financial Officer and the request must include a joint statement as to whether it is deemed consistent with the SEC s and PCAOB s rules on auditor independence.

All audit and non-audit services provided to the company and its subsidiaries by PwC during fiscal year 2013 and by EY during fiscal year 2012 were either specifically approved or pre-approved under the policy.

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Certain Relationships and Related Transactions

Share Repurchases. In order to pay withholding or other similar taxes due in connection with the vesting of equity awards granted under the 2011 Global Equity Incentive Plan, the 2010 Global Equity Incentive Plan (ST), 2008 Global Equity Incentive Plan, and the Global Stock Plan, employee participants, including our named executive officers, may elect the net shares method whereby the company purchases from the participant shares equal in value to the tax withholding liability in connection with vesting equity awards. Under the net shares method, the price per share paid by the company for repurchases is the closing price of the company s common shares on the NYSE on the distribution date.

During fiscal 2013, the company repurchased common shares from the executive officers for the aggregate consideration shown in the following table:

Name and Title	Number of Shares Repurchased (#)	Aggregate Consideration ($)
G. Mark Armour Senior Managing Director and Head of EMEA	27,727	731,958
Kevin M. Carome Senior Managing Director and General Counsel	28,925	764,577
Karen Dunn Kelley Senior Managing Director, Investments	38,042	1,005,672
Colin D. Meadows Senior Managing Director and Chief Administratdth="1%">	0.95%	22bp

Key balance sheet items	At 30 June 2015 £bn	At 31 Dec 2014 £bn	Change %
Loans and advances excluding closed portfolios	283.9	284.7	–
Closed portfolios	29.0	30.5	(5)
Loans and advances to customers	312.9	315.2	(1)
Relationship balances	245.0	247.9	(1)
Tactical balances	33.2	37.6	(12)
Customer deposits	278.2	285.5	(3)
Total customer balances	591.1	600.7	(2)
Risk-weighted assets	65.9	67.7	(3)

COMMERCIAL BANKING

Commercial Banking supports UK businesses from SMEs to large corporates and financial institutions. It has a client led, low risk strategy targeting sustainable returns on risk weighted assets above 2 per cent by 2015 and more than 2.4 per cent by the end of 2017, whilst simplifying operating processes, building digital capability and maintaining capital discipline. Commercial Banking aims to be the best bank for clients, delivering a through-the-cycle relationship approach that provides affordable, simple and transparent finance, as well as support for complex needs and access to Government funding schemes.

Progress against strategic initiatives

- Increased lending to SMEs by 5 per cent supported by strong relationship banking and remain the largest net lender to SMEs under the Funding for Lending Scheme (FLS), with over £3 billion of gross FLS lending in the first half of 2015.
- Maintained lending to Mid Market clients in a declining market, delivering an improved local service with an overall increase in client advocacy and ongoing investment in relationship manager capability.
- Grown both SME and Mid Market client base and have committed over £735 million of funding support to UK manufacturing.
- Global Corporates was ranked first in Sterling capital markets financing of UK corporates in the first half of 2015, raising more than £1.8 billion for clients. It continues to help Britain prosper globally by providing UK clients with overseas capability and leveraging its considerable domestic capabilities in support of major international companies seeking a gateway into the UK.
- Financial Institutions (FI) actively supports the Financial Services industry in the UK, a sector critical to the success of the UK economy. Our leading FI franchise continued to deliver through deep sector expertise as illustrated by the growing number of lead financing roles, helping our clients to raise £30 billion of funding in the year to date.
- Strong deposit growth underpinned by continued investment in Transaction Banking platforms and further helped by the Group’s improving credit rating.
- Continued our commitment to Helping Britain Prosper, raising over £500 million through our Environmental, Social and Governance (ESG) programmes including the issuance of our second ESG bond for £250 million and launch of an ESG Term Deposit to finance SMEs, healthcare providers and renewable energy projects in the most economically disadvantaged areas of the UK.
- Supporting over £2.6 billion of UK national infrastructure financing including developing and leading the first CPI-linked bond in the sterling market, used by the Greater London Authority to partly fund the extension of the London Underground Northern Line; a development which will lead to the creation of 24,000 new jobs and 18,000 new homes.

Financial performance

- Underlying profit of £1,193 million, up 3 per cent, driven by income growth and a significant reduction in impairments.
- Income increased by 2 per cent to £2,257 million, reflecting strong growth in our Core Client franchises, offset by lower revaluation income from Lloyds Development Capital (LDC).
- Net interest margin increased by 18 basis points to 2.81 per cent due to disciplined pricing of new lending and a continued reduction in funding costs as a result of attracting high quality transactional deposits in SME, Mid Markets and Global Corporates.
- Other income increased 4 per cent, driven by significant refinancing activity support provided to Global Corporate clients and increases in Mid Markets and Financial Institutions, offset by a reduction in LDC.
- Asset quality ratio of 0.04 per cent improved by 1 basis point, reflecting lower gross charges, improved credit quality and continued progress in executing the strategy of building a low risk commercial bank.
- Return on risk-weighted assets increased by 33 basis points to 2.29 per cent. We remain on target to deliver sustainable returns in excess of 2 per cent in 2015 and more than 2.40 per cent by the end of 2017.

Balance sheet

-

Loans and advances to customers fell by 1 per cent to £100.2 billion with growth in SME offset by transfers to the Insurance division.

- Customer deposits increased by 5 per cent, with growth in all client segments.
- Risk-weighted assets decreased by £3.4 billion, reflecting continued optimisation of the balance sheet. Reductions in credit and market risk-weighted assets were the result of active portfolio management across Financial Markets and Global Corporates, and Market Risk model changes.

COMMERCIAL BANKING (continued)

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Change %	Half-year to 31 Dec 2014 £m	Change %
Net interest income	1,234	1,234	–	1,246	(1)
Other income	1,023	984	4	972	5
Total income	2,257	2,218	2	2,218	2
Operating costs	(1,043)	(1,022)	(2)	(1,101)	5
Operating lease depreciation	(14)	(11)	(27)	(13)	(8)
Costs	(1,057)	(1,033)	(2)	(1,114)	5
Impairment	(7)	(29)	76	(54)	87
Underlying profit	1,193	1,156	3	1,050	14
Banking net interest margin	2.81%	2.63%	18bp	2.70%	11bp
Asset quality ratio	0.04%	0.05%	(1)bp	0.10%	(6)bp
Return on risk-weighted assets	2.29%	1.96%	33bp	1.88%	41bp
Return on assets	1.06%	1.01%	5bp	0.87%	19bp

Key balance sheet items	At 30 June 2015 £bn	At 31 Dec 2014 £bn	Change %
SME	28.8	27.9	3
Other	71.4	73.0	(2)
Loans and advances to customers	100.2	100.9	(1)
Customer deposits	125.4	119.9	5
Total customer balances	225.6	220.8	2
Risk-weighted assets	102.8	106.2	(3)

CONSUMER FINANCE

Consumer Finance aims to extend its market leadership in motor finance by building its digital capability and creating new propositions in both the Black Horse and Lex Autolease businesses. In Credit Cards, better use will be made of Group customer relationships and insight, with investment into digital strategic initiatives to seek growth within its

current risk appetite from franchise customers, as well as a focus on attracting non-franchise customers.

Progress against strategic objectives

- Investing in our growth strategy:
  - Successfully launched the market's first direct-to-consumer, secured car finance proposition, providing a simple, digital hire purchase and personal contract purchase offering through online banking and mobile devices.
  - Further digital developments within Credit Cards improving our customers' experience, particularly within mobile. Significant improvements in our customer propositions, including a broadened, more competitive product range, along with improved switching and multiple product holding capabilities.
- Focus on new business in a competitive market:
  - 17 per cent growth in Black Horse new lending year-on-year with strong underlying business performance including the Jaguar Land Rover partnership, while leading the industry in embedding significant Consumer Credit regulatory change.
  - 6 per cent growth in Lex Autolease fleet size year-on-year with leads from the franchise up 14 per cent.
  - 21 per cent increase in Cards balance transfer volumes year-on-year from both new and existing customers and a net gainer from competitors.
  - 25 per cent growth in transaction volumes year-on-year within the Cardnet Acquiring solutions business, driven by increased activity from existing customers.
- Growing balances in under-represented markets:
  - UK Consumer Finance loan growth of 17 per cent year-on-year.
  - Growth in Credit Cards lending balances of 5 per cent year-on-year.
  - Black Horse lending up 33 per cent and Lex operating leases 10 per cent higher year-on-year.
- Customer satisfaction improved with increased Net Promoter Scores year-on-year across the UK businesses including a significant improvement in Credit Cards.

Financial performance

- Underlying profit up to £539 million, with new business volume driven income growth in Black Horse and Lex Autolease and reductions in impairments reflecting improved quality of the portfolio, offsetting an increase in costs largely reflecting investment in our growth strategy.
- Net interest income increased by 2 per cent to £658 million driven by strong growth across all lending businesses, partly offset by a 43 basis point reduction in net interest margin to 6.26 per cent including the impact of lower Euribor rates on the online deposit businesses. The lower margin underlies a shift towards higher quality and hence lower margin lending which in turn is consistent with the lower impairment charges being experienced.
- Increase in other income to £677 million as a result of the continued fleet growth in Lex Autolease in a competitive environment.
- Costs increased by 7 per cent to £756 million with operational efficiencies more than offset by investment in growth initiatives and increased operating lease depreciation as a result of growth in the Lex Autolease fleet.
- Impairment charges reduced by 49 per cent to £40 million, with an improvement in the asset quality ratio, driven by continued improvement in portfolio quality supported by the sale of recoveries assets in the Credit Cards portfolio.
- Return on risk-weighted assets in line with the prior year at 5.19 per cent with growth in underlying profit offset by a small increase in average risk-weighted assets.

Balance sheet

- Net lending increased by 4 per cent since December driven by Black Horse with growth of 18 per cent. In Credit Cards we have seen growth accelerate to 5 per cent year-on-year. Balances in the European businesses were down 8 per cent since December driven by foreign exchange rate movements.
- Operating lease assets up by 3 per cent since December to £3.2 billion reflecting growth in the Lex Autolease fleet.
- Customer deposits reduced by 24 per cent since December to £11.4 billion driven by deposit re-pricing activity in response to lower Euribor rates and foreign exchange rate movements.
- Risk weighted assets unchanged since December, with growth in net lending offset by active portfolio management and improvements in credit quality.

CONSUMER FINANCE (continued)

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Change %	Half-year to 31 Dec 2014 £m	Change %
Net interest income	658	645	2	645	2
Other income	677	675	–	689	(2)
Total income	1,335	1,320	1	1,334	–
Operating costs	(403)	(389)	(4)	(373)	(8)
Operating lease depreciation	(353)	(319)	(11)	(348)	(1)
Costs	(756)	(708)	(7)	(721)	(5)
Impairment	(40)	(78)	49	(137)	71
Underlying profit	539	534	1	476	13
Banking net interest margin	6.26%	6.69%	(43)bp	6.30%	(4)bp
Asset quality ratio	0.38%	0.78%	(40)bp	1.30%	(92)bp
Impaired loans as a % of closing advances	2.8%	4.2%	(1.4)pp	3.4%	(0.6)pp
Return on risk-weighted assets	5.19%	5.20%	(1)bp	4.49%	70bp
Return on assets	4.16%	4.30%	(14)bp	3.79%	37bp

Key balance sheet items	At 30 June 2015 £bn	At 31 Dec 2014 £bn	Change %
Loans and advances to customers	21.8	20.9	4
Of which UK	17.3	16.0	8
Operating lease assets	3.2	3.1	3
Total customer assets	25.0	24.0	4
Of which UK	20.5	19.1	7
Customer deposits	11.4	15.0	(24)
Total customer balances	36.4	39.0	(7)
Risk-weighted assets	21.0	20.9	–

INSURANCE

The Insurance division is committed to meeting the changing needs of our customers by working with our Group partners to provide a range of trusted and value for money products via multiple channels. Since it was founded 200 years ago Scottish Widows has been protecting what our customers value most and helping them plan financially for the future, currently with almost six million life and pensions customers and over £95 billion of funds under management.

Progress against strategic initiatives

- Corporate Pensions assets under management increased by £1.4 billion to £28.4 billion in the first half of the year following continued growth in contributions under auto enrolment. As a leading provider in this sector, Insurance is well positioned to benefit from the expected growth in the workplace savings market.

- Launched a new retirement planning website to inform and educate customers about the options and choices available to them in retirement. This provides customers with increased flexibility in how they access guidance on their retirement options. In the four months since launch more than 150,000 customers have utilised this site.

- Home Insurance sales through online channels continued to grow, supported by strong retention, following the decision taken to bring the underwriting in house. Continued investment in the Group's direct digital capability will deliver a more flexible Home Insurance product later this year.

- Customer access to protection products has been extended with the launch of an online product which gives customers the opportunity to acquire life insurance through a quick and easy digital journey.

- Successfully executed a bulk annuity transaction with the Scottish Widows With-Profits fund. This represented a key stage in plans to participate in the growing and attractive defined benefit pensions scheme de-risking market via a bulk annuities offering.

- Continued optimisation of assets across the Group through the acquisition of attractive higher yielding assets from the Group to match long duration annuity liabilities. Total assets acquired to date are circa £5 billion.

- Increased focus on the core UK business with the agreed sale of the Isle of Man based Clerical Medical International insurance business.

Financial performance

- Underlying profit up 27 per cent to £584 million, primarily driven by the £98 million new business value of the bulk annuity transaction with the With-Profits fund.

- LP&I sales (PVNBP) increased by 25 per cent in the year, boosted by £2,386 million from the With-Profits fund annuity transaction. Excluding this, PVNBP fell by 26 per cent, driven by significant regulatory and market change.

- Operating cash generation increased by £11 million, to £391 million, primarily reflecting benefits from the acquisition of higher yielding assets more than offsetting the initial impact of the bulk annuity transaction with the With-Profits fund.

- General Insurance Gross Written Premiums (GWP) decreased 7 per cent, reflecting the competitive market environment and the run off of products closed to new customers.

Capital

- Estimated Pillar 1 capital surplus is £2.7 billion (Scottish Widows plc, £2.6 billion in 2014) and for Insurance Groups Directive is £3.1 billion (Insurance Group, £3.0 billion in 2014) with the changes in both Pillar 1 and IGD reflecting earnings in the first half of the year.

- Preparations are on track for Solvency II implementation on 1 January 2016. Implementation is expected to have a minimal impact on the Insurance division capital position given the anticipated impact of transitional arrangements.

- Plans are progressing well to simplify the corporate structure of the life insurance entities to deliver capital and simplification benefits.

INSURANCE (continued)

Performance summary

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Change %	Half-year to 31 Dec 2014 £m	Change %
Net interest income	(73)	(64)	(14)	(67)	(9)
Other income	1,025	854	20	871	18
Total income	952	790	21	804	18
Costs	(368)	(329)	(12)	(343)	(7)
Underlying profit	584	461	27	461	27
Operating cash generation	391	380	3	357	10
UK LP&I sales (PVNBP)1	5,837	4,680	25	3,921	49
General Insurance total GWP2	561	604	(7)	593	(5)
General Insurance combined ratio	73%	80%	(7)pp	76%	(3)pp

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

Profit by product group

	Half-year to 30 June 2015						Half-year to 30 June 2014	Half-year to 31 Dec 2014
	Pensions & investments £m	Protection & retirement £m	Bulk annuities £m	General insurance £m	Other1 £m	Total £m	Total £m	Total £m
New business income	91	15	98	–	–	204	151	116
Existing business income	307	64	–	–	34	405	441	442
Long-term investment strategy	–	52	39	–	–	91	95	65
Assumption changes and experience variances	(16)	66	–	–	10	60	(105)	(29)
General Insurance income net of claims	–	–	–	192	–	192	208	210
Total income	382	197	137	192	44	952	790	804
Costs	(220)	(72)	(7)	(69)	–	(368)	(329)	(343)
Underlying profit	162	125	130	123	44	584	461	461

Underlying profit 30 June 2014[2]	144	141	–	138	38	461

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.

INSURANCE (continued)

New business income has increased by £53 million, with the primary driver being a £98 million benefit from the bulk annuity transaction with the Scottish Widows With-Profits fund. This has been offset by a reduction in Protection income following the removal of face-to-face advised standalone protection roles in branches and a reduction in income from individual annuities following Pensions Freedom. Corporate pension income remained robust although decreased relative to significant sales in 2014 driven by auto enrolment.

The fall in existing business income reflects a reduction in the expected rate of return used to calculate the life and pensions income. The rate of return is largely set by reference to an average 15 year swap rate (rate of return 2.82 per cent in the first half of 2015 and 3.48 per cent in 2014).

Long-term investments strategy includes the benefit from the successful acquisition of a further £0.8 billion of higher yielding assets to match the long duration liabilities in both the standard annuity book as well as the newly acquired bulk annuity business.

Assumption changes and experience variances include a £40 million benefit from changes to assumptions on longevity reflecting experience in the annuity portfolio. The prior year included a one-off £100 million charge relating to the corporate pensions fee cap.

General Insurance income net of claims has fallen by £16 million, reflecting the run-off of products closed to new customers.

Costs are £39 million higher, reflecting significant investment spend in the first half of 2015 supporting our strategic growth initiatives and significant regulatory and change agendas.

Operating cash generation

	Half-year to 30 June 2015						Half-year to 30 June 2014	Half-year to 31 Dec 2014
	Pensions & investments	Protection & retirement	Bulk annuities	General insurance	Other	Total	Total	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cash invested in new business	(91)	(17)	(105)	–	–	(213)	(153)	(135)
Cash generated from existing business	280	105	63	–	33	481	395	366
	–	–	–	123	–	123	138	126

Cash generated from General Insurance								
Operating cash generation1	189	88	(42)	123	33	391	380	357
Intangibles and other adjustments2	(27)	37	172	–	11	193	81	104
Underlying profit	162	125	130	123	44	584	461	461
Operating cash generation 30 June 2014	143	36	–	138	63	380		

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 £391 million of operating cash in the first half of 2015, £11 million higher than the prior year. Within Protection & retirement, cash benefits of £53 million were recognised in respect of the successful acquisition of attractive higher yielding assets to match long duration annuity liabilities. Within Bulk annuities, the cash benefits from such transactions was £63 million, partially offsetting the initial strain of the bulk annuity transaction with the With-Profits fund contained within 'Cash invested in new business'. In addition, the sale of a reinsurance asset contributed £48 million to operating cash.

RUN-OFF AND CENTRAL ITEMS

RUN-OFF

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Change %	Half-year to 31 Dec 2014 £m	Change %
Net interest income	(19)	(67)	72	(49)	61
Other income	105	260	(60)	191	(45)
Total income	86	193	(55)	142	(39)
Operating costs	(74)	(153)	52	(126)	41
Operating lease depreciation	(7)	(16)	56	(13)	46
Costs	(81)	(169)	52	(139)	42
Impairment	32	(324)		121	(74)
Underlying profit (loss)	37	(300)		124	(70)

Key balance sheet items	At 30 June 2015 £bn	At 31 Dec 2014 £bn	Change %

Loans and advances to customers	12.2	14.4	(15)
Total assets	14.4	16.9	(15)
Risk-weighted assets	14.3	16.8	(15)

- Run-off includes certain assets previously classified as non-core and the results and gains or losses on sale of businesses sold in 2014.

- The reduction in income and costs largely related to the sale of Scottish Widows Investment Partnership in the first quarter of 2014.

- The net release of impairment charge in the first half of 2015 reflected the reduction in the run-off book and improving economic conditions. This has led to a low level of new charges which have been more than offset by releases and write-backs. A breakdown of the impairment charge is shown on page 31.

CENTRAL ITEMS

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Total underlying income	36	66	66
Costs	38	(34)	12
Impairment	(1)	–	(2)
Underlying profit	73	32	76

- 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.

		Removal of:					
Half-year to 30 June 2015	Lloyds Banking Group statutory £m	Asset sales and other items1 £m	Simplification2 £m	TSB3 £m	Insurance gross up £m	PPI and other regulatory provisions £m	Underlying basis £m
Net interest income	5,492	174	–	(192)	241	–	5,715
Other income, net of insurance claims	3,315	261	–	(36)	(287)	–	3,253

Total income	8,807	435	–	(228)	(46)	–	8,968
Operating expenses4	(7,453)	180	32	836	46	1,835	(4,524)
Impairment	(161)	(37)	–	19	–	–	(179)
TSB	–	–	–	118	–	–	118
Profit before tax	1,193	578	32	745	–	1,835	4,383

		Removal of:					
Half-year to 30 June 2014	Lloyds Banking Group statutory £m	Asset sales and other items5 £m	Simplification £m	TSB6 £m	Insurance gross up £m	PPI and other regulatory provisions £m	Underlying basis £m
Net interest income	5,262	303	–	(400)	239	–	5,404
Other income, net of insurance claims	2,434	1,328	–	(72)	(314)	–	3,376
Total income	7,696	1,631	–	(472)	(75)	–	8,780
Operating expenses4	(6,192)	(486)	519	504	75	1,100	(4,480)
Impairment	(641)	(117)	–	51	–	–	(707)
TSB	–	–	–	226	–	–	226
Profit before tax	863	1,028	519	309	–	1,100	3,819

		Removal of:					
Half-year to 31 Dec 2014	Lloyds Banking Group statutory £m	Asset sales and other items7 £m	Simplification £m	TSB6 £m	Insurance gross up £m	PPI and other regulatory provisions £m	Underlying basis £m
Net interest income	5,398	316	–	(386)	243	–	5,571
Other income, net of insurance claims	3,305	132	22	(68)	(300)	–	3,091
Total income	8,703	448	22	(454)	(57)	–	8,662
Operating expenses4	(7,693)	200	425	424	57	2,025	(4,562)
Impairment	(111)	(331)	–	47	–	–	(395)
TSB	–	–	–	232	–	–	232
Profit before tax	899	317	447	249	–	2,025	3,937

1 Comprises the effects of asset sales (loss of £52 million), volatile items (loss of £297 million), liability management (loss of £6 million), volatility arising in insurance businesses (gain of £18 million), the amortisation of purchased intangibles (loss of £164 million) and fair value unwind (loss of £77 million).
2 Comprises Simplification costs related to severance for the next phase of the programme.
3 Comprises the underlying results of TSB, dual running and build costs and the charge relating to the disposal of TSB.
4 On an underlying basis, this is described as costs.

5 Comprises the effects of asset sales (gain of £94 million), volatile items (gain of £152 million), liability management (loss of £1,376 million), volatility arising in insurance businesses (loss of £122 million), the past service pension credit (gain of £710 million), the amortisation of purchased intangibles (loss of £171 million) and fair value unwind (loss of £315 million).

6 Comprises the underlying results of TSB, dual-running and build costs.

7 Comprises the effects of asset sales (gain of £44 million), volatile items (gain of £134 million), liability management (loss of £10 million), volatility arising in insurance businesses (loss of £106 million), the amortisation of purchased intangibles (loss of £165 million) and fair value unwind (loss of £214 million).

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:

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Banking net interest income – underlying basis	5,789	5,426	5,633
Insurance division	(73)	(64)	(67)
Other net interest income (including trading activity)	(1)	42	5
Net interest income – underlying basis excluding TSB	5,715	5,404	5,571
Asset sales and other items	(174)	(303)	(316)
TSB	192	400	386
Insurance gross up	(241)	(239)	(243)
Group net interest income – statutory	5,492	5,262	5,398

Average interest-earning banking assets exclude TSB and are calculated gross of related impairment allowances, and relate solely to customer and product balances in the banking businesses on which interest is earned or paid.

	Half-year to 30 June 2015 £bn	Half-year to 30 June 2014 £bn	Half-year to 31 Dec 2014 £bn
Average loans and advances (gross)	457.4	477.4	468.8
Non-banking assets and other adjustments1	(12.6)	(11.8)	(12.1)
Average interest-earning assets excluding TSB	444.8	465.6	456.7

1 Other adjustments include assets that are netted for interest earning purposes and reverse repos.

3. Volatility arising in insurance businesses

The Group's statutory result before tax included positive volatility totalling £18 million compared to negative volatility of £122 million in 2014.

Volatility comprises the following:

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Insurance volatility	(109)	(133)	(86)
Policyholder interests volatility	83	43	(26)
Total volatility	(26)	(90)	(112)
Insurance hedging arrangements	44	(32)	6
Total	18	(122)	(106)

ADDITIONAL INFORMATION (continued)

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.

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 where appropriate, rates are updated throughout the year to reflect changing market conditions. The negative insurance volatility during the period ended 30 June 2015 of £109 million primarily reflects an adverse performance on cash investments in the period relative to the expected return and an increase in yields.

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 the first half of 2015, the statutory results before tax included a credit to other income which relates to policyholder interests volatility totalling £83 million (first half of 2014: £43 million) relating to 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. On a mark-to-market basis a gain of £44 million was recognised in relation to these contracts in the first half of 2015.

4. Number of employees

	At 30 June 2015	At 31 Dec 2014
Retail	33,130	35,032
Commercial Banking	6,473	6,212
Consumer Finance	3,413	3,483
Insurance	1,963	2,015
Group operations, functions and run-off	33,274	32,407
TSB	–	7,685
	78,253	86,834
Agency staff, interns and scholars	(2,628)	(2,344)
Total number of employees (full-time equivalent)	75,625	84,490
Total number of employees excluding TSB		76,978

RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

The most significant risks faced by the Group which could impact the success of delivering against the Group's long-term strategic objectives and through which global macro-economic, regulatory developments and market liquidity dynamics could manifest, are detailed below. Except where noted, there has been no significant change to the description of these risks or key mitigating actions disclosed in the Group's 2014 Annual Report and Accounts, with any quantitative disclosures updated herein.

Credit risk – Adverse changes in the economic and market environment or the credit quality of our counterparties and customers could reduce asset values; potentially increase write-downs and allowances for impairment losses thereby adversely impacting profitability. Refer to 2014 Annual Report and Accounts for mitigating actions and further details.

Conduct risk – We face significant potential conduct risk, including selling products which do not meet customer needs; failing to deal with complaints effectively and exhibiting behaviours which do not meet market or regulatory standards. Refer to 2014 Annual Report and Accounts for mitigating actions and further details.

Market risk – Key market risks include interest rate and credit spread in the Banking business, credit spread and equity in the Insurance business and the defined benefit pension schemes where asset and liability movements impact on our capital position. Refer to 2014 Annual Report and Accounts for mitigating actions and further details. In addition, a Group hedge has been implemented to provide protection from Insurance equity volatility.

Operational risk – Significant operational risks which may result in financial loss, disruption or damage to the reputation of the Group, including the availability, resilience and security of our core IT systems and the potential for failings in our customer processes. Refer to 2014 Annual Report and Accounts for mitigating actions and further

details.

Capital risk – Future capital position is potentially at risk from a worsening macroeconomic environment, which could lead to adverse financial performance and deplete capital resources and/or increase capital requirements. Refer to 2014 Annual Report and Accounts for mitigating actions and further details.

Funding and liquidity risk – Our funding and liquidity position is supported by a significant and stable customer deposit base. A deterioration in either our or the UK's credit rating, or a sudden and significant withdrawal of customer deposits could adversely impact our funding and liquidity position. Refer to 2014 Annual Report and Accounts for mitigating actions and further details. In addition, the Group has a contingency funding plan providing management actions and strategies available in stressed conditions.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Legal and regulatory risk – The Group and its businesses are subject to ongoing regulation, associated legal and regulatory risks, and legal and regulatory actions. They are also subject to the effects of changes in the laws, regulations, policies, voluntary codes of practice (as well as in their respective interpretations) and court rulings in the UK, the European Union and the other markets in which the Group operates. These laws and regulations include (i) increased regulatory oversight, particularly in respect of conduct issues; (ii) prudential regulatory developments; and (iii) industry-wide initiatives. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements.

Mitigating actions

- The Legal, Regulatory and Mandatory Change Committee ensure we drive forward activity to develop plans for ensuring delivery of all legal and regulatory changes and track their progress against those plans.

- Continued investment in our people, processes, training and IT systems is assisting us in meeting our legal and regulatory commitments.
- Engagement with the regulatory authorities on forthcoming regulatory changes, market reviews and CMA investigations.

- Defined and embedded conduct risk strategy.

Governance risk – Against a background of increased regulatory focus on governance and risk management the most significant challenges arise from the Senior Managers and Certification Regime (SMR) which comes into operation in March 2016 and the requirement to Ring Fence core UK financial services and activities from January 2019.

Mitigating actions

- The Group's response to SMR is managed through a programme with workstreams addressing the implementation of each of the major components.

- A programme is in place to address the requirements of ring fencing 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 reflect the balance of business in the Group while adhering to regulatory objectives.

People risk – Key people risks include the risk that the Group may fail to attract and retain talent in an increasingly competitive marketplace, particularly in the light of the introduction of the Senior Managers and Certification Regime in 2016 which introduces a reverse burden of proof and increased accountability.

Mitigating actions

- Focused actions on delivery of strategies to attract, retain and develop high calibre people.

- Maintain compliance with legal and regulatory requirements relating to Senior Managers and Certification Regime, embedding compliant and appropriate colleague behaviours.

- Continue focus on the Group's culture, delivering initiatives which reinforce behaviours to generate the best long-term outcomes for customers and colleagues.

CREDIT RISK PORTFOLIO

Significant reduction in impairments and impaired assets

- The impairment charge decreased by 75 per cent from £707 million to £179 million in the first half of 2015 compared to the first half of 2014. The impairment charge has decreased across all divisions.

- The reduction reflects lower levels of new impairment as a result of effective risk management, improving economic conditions and the continued low interest rate environment.

- The impairment charge also benefited from provision releases but at lower levels than seen during the first half of 2014.

- The impairment charge as a percentage of average loans and advances to customers improved to 0.09 per cent compared to 0.30 per cent during the first half of 2014.

- Impaired loans as a percentage of closing advances reduced to 2.7 per cent at 30 June 2015, from 2.9 per cent at 31 December 2014 driven by improvements in all divisions. Impaired loans reduced by £1,828 million during the period, mainly due to disposals, write-offs and lower levels of newly impaired loans.

Low risk culture and prudent risk appetite

- The Group is delivering sustainable lending growth by maintaining its lower risk origination discipline despite terms and conditions in the market being impacted by excess liquidity. The overall quality of the portfolio has improved over the last 12 months.

- The Group continues to deliver above market lending growth in SME whilst maintaining its prudent risk appetite.

- The Group continues to adopt a conservative stance across the Eurozone, maintaining close portfolio scrutiny and oversight. The Group has minimal direct exposure to Greece. Detailed contingency plans are in place and exposures to financial institutions domiciled in peripheral Eurozone countries remain modest and managed within tight risk parameters.

Re-shaping of the Group is fundamentally complete

- Run-off net external assets have reduced from £16,857 million to £14,411 million during the first half of 2015 in a capital accretive way.

- The Run-off portfolio now represents only 2.7 per cent of the overall Group's loans and advances and poses substantially less downside risk to the Group. The remaining assets are the subject of frequent review, and are impaired to appropriate levels based on external evidence and internal reviews.

- The Group continues to reduce its exposure to Ireland with gross loans and advances further reduced by £1,258 million to £6,642 million gross (net £4,437 million) during the first half of 2015; due to disposals, write-offs and net repayments.

- The Irish wholesale portfolio remains significantly impaired at 91.5 per cent, with provision coverage of 85.8 per cent. Net exposure in Ireland wholesale has fallen to £572 million (31 December 2014: £956 million).

- The Irish Retail portfolio has reduced from £4,464 million at 31 December 2014 to £3,984 million at 30 June 2015.

CREDIT RISK PORTFOLIO (continued)

Impairment charge by division

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Change since 30 June 2014 %	Half-year to 31 Dec 2014 £m
Retail:				
Secured	49	94	48	187
Loans and overdrafts	102	165	38	114
Other	12	17	29	22
	163	276	41	323
Commercial Banking:				
SME	(4)	5		10
Other	11	24	54	44
	7	29	76	54
Consumer Finance:				
Credit Cards	21	69	70	117
Asset Finance UK	21	8		22
Asset Finance Europe	(2)	1		(2)
	40	78	49	137
Run-off:				
Ireland retail	(2)	13		(19)
Ireland commercial real estate	16	56	71	11
Ireland corporate	59	182	68	65
Corporate real estate and other corporate	(52)	92		(120)
Specialist finance	(25)	30		(8)
Other	(28)	(49)	(43)	(50)
	(32)	324		(121)
Central items	1	–		2
Total impairment charge	179	707	75	395
	0.09%	0.30%	(21)bp	0.17%

Impairment charge as a % of average advances

Total impairment charge comprises:

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Loans and advances to customers	198	705	380
Debt securities classified as loans and receivables	(2)	–	2
Available-for-sale financial assets	–	2	3
Other credit risk provision	(17)	–	10
Total impairment charge	179	707	395

CREDIT RISK PORTFOLIO (continued)

Group impaired loans and provisions

At 30 June 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	301,044	3,880	1.3	1,414	36.4
Loans and overdrafts	10,149	641	6.3	195	78.9
Other	3,775	280	7.4	48	19.0
	314,968	4,801	1.5	1,657	37.8
Commercial Banking:					
SME	29,016	1,352	4.7	264	19.5
Other	72,319	1,357	1.9	919	67.7
	101,335	2,709	2.7	1,183	43.7
Consumer Finance:					
Credit Cards	9,189	424	4.6	156	78.8
Asset Finance UK	8,386	154	1.8	117	76.0
Asset Finance Europe	4,516	45	1.0	21	46.7
	22,091	623	2.8	294	74.1
Run-off:					
Ireland retail	3,984	121	3.0	119	98.3
Ireland commercial real estate	1,411	1,326	94.0	1,151	86.8
Ireland corporate	1,247	1,105	88.6	935	84.6
Corporate real estate and other corporate	2,623	1,147	43.7	691	60.2
Specialist finance	4,942	530	10.7	366	69.1
Other	1,386	118	8.5	121	102.5

	15,593	4,347	27.9	3,383	77.8
Reverse repos and other items3	5,329	–	–	–	–
Total gross lending	459,316	12,480	2.7	6,517	55.1
Impairment provisions	(6,517)				
Fair value adjustments4	(372)				
Total Group	452,427				

1 Impairment provisions include collective unimpaired provisions.
2 Impairment provisions as a percentage of impaired loans are calculated excluding Retail and Consumer Finance loans in recoveries
(£394 million in Retail loans and overdrafts, £27 million in Retail other and £226 million in Consumer Finance credit cards).
3 Includes £5.1 billion (31 December 2014: £4.4 billion) of lower risk loans transferred from Commercial Banking and Retail divisions into Insurance division's shareholder funds to support the Insurance division's annuity portfolio.
4 The fair value adjustments relating to loans and advances were those required to reflect the HBOS assets in the Group's consolidated financial records at their fair value and took into account both the expected losses and market liquidity at the date of acquisition. The unwind relating to future impairment losses requires significant management judgement to determine its timing which includes an assessment of whether the losses incurred in the current period were expected at the date of the acquisition and assessing whether the remaining losses expected at the 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 £37 million for the period ended 30 June 2015
(30 June 2014: £90 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 UK	7,204	160	2.2	112	70.0
Asset Finance Europe	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 commercial real estate	1,797	1,659	92.3	1,385	83.5
Ireland corporate	1,639	1,393	85.0	1,095	78.6
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 items3	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 unimpaired 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 Includes £4.4 billion of lower risk loans (social housing, infrastructure and education) transferred from Commercial Banking division into Insurance division's shareholder funds to support the Group's annuity portfolio.

CREDIT RISK PORTFOLIO (continued)

Retail

- The impairment charge was £163 million in the first half of 2015, a decrease of 41 per cent against the first half of 2014. Reductions were seen across all portfolios.

- The impairment charge, as a percentage of average loans and advances to customers, improved to 0.10 per cent in the first half of 2015 from 0.18 per cent in the first half of 2014.

- Impaired loans decreased by £126 million in the first half of 2015 to £4,801 million which represented 1.5 per cent of closing loans and advances to customers (31 December 2014: 1.6 per cent).

Secured

- The impairment charge was £49 million in the first half of 2015, a decrease of 48 per cent against the first half of 2014. The impairment charge as a percentage of average loans and advances to customers, improved to 0.03 per cent in the first half of 2015 from 0.06 per cent in the first half of 2014.

- Impaired loans reduced by £31 million in the first half of 2015 to £3,880 million. Impairment provisions as a percentage of impaired loans decreased to 36.4 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 £175 million to £6,169 million at 30 June 2015 compared to £6,344 million at 31 December 2014.

- The average indexed loan to value (LTV) on the mortgage portfolio at 30 June 2015 decreased to 45.9 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 1.2 per cent at 30 June 2015, compared with 2.2 per cent at 31 December 2014.

- The average LTV for new mortgages and further advances written in the first half of 2015 was 64.6 per cent compared with 64.8 per cent for 2014.

Loans and overdrafts

- The impairment charge was £102 million in the first half of 2015, a decrease of 38 per cent against the first half of 2014. The reduction was driven by a continued underlying improvement of portfolio quality supported by write-backs from the sale of recoveries assets.

- The impairment charge as a percentage of average loans and advances to customers, improved to 1.94 per cent in the first half of 2015 from 3.09 per cent in the first half of 2014.

- Impaired loans reduced by £54 million in the first half of 2015 to £641 million representing 6.3 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 30 June 2015 £m	At 31 Dec 2014 £m
Mainstream	226,174	228,176
Buy-to-let	54,172	53,322
Specialist1	20,698	21,623
	301,044	303,121
Loans	8,068	8,204
Overdrafts	2,081	2,191
Wealth	2,895	2,962
Retail Business Banking	880	869
	13,924	14,226
Total	314,968	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 loans1		Total mortgage balances %	
	June 2015	Dec 2014	June 2015	Dec 2014	June 2015	Dec 2014	June 2015	Dec 2014
	Cases	Cases	%	%	£m	£m	%	%
Mainstream	36,556	37,849	1.6	1.7	3,960	4,102	1.8	1.8
Buy-to-let	5,147	5,077	1.1	1.1	651	658	1.2	1.2
Specialist	9,252	9,429	6.4	6.3	1,558	1,584	7.5	7.3
Total	50,955	52,355	1.8	1.8	6,169	6,344	2.0	2.1

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

The stock of repossessions decreased to 601 cases at 30 June 2015 compared to 1,740 cases at 31 December 2014.

Period end and average LTVs across the Retail mortgage portfolios

At 30 June 2015	Mainstream	Buy-to-let	Specialist	Total	Unimpaired	Impaired
	%	%	%	%	%	%
Less than 60%	52.9	44.5	41.0	50.6	50.9	30.0
60% to 70%	21.1	29.3	21.2	22.5	22.6	18.1
70% to 80%	15.4	14.1	17.5	15.3	15.3	18.6
80% to 90%	7.6	8.9	12.3	8.2	8.1	13.9
90% to 100%	2.1	2.1	4.2	2.2	2.1	9.3
Greater than 100%	0.9	1.1	3.8	1.2	1.0	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Outstanding loan value (£m)	226,174	54,172	20,698	301,044	297,164	3,880
Average loan to value:1						
Stock of residential mortgages	43.3	56.7	54.4	45.9		
New residential lending	65.0	62.7	n/a	64.6		
Impaired mortgages	55.3	74.4	67.3	59.9		

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 loans and advances as a percentage of the total collateral of these loans and advances.

CREDIT RISK PORTFOLIO (continued)

Commercial Banking

- The impairment charge was £7 million in the first half of 2015, 76 per cent lower than the £29 million in the first half of 2014. This has been driven by lower levels of new impairment as a result of effective risk management, improving economic conditions and the continued low interest rate environment.

  - The charge also benefited from provision releases but at lower levels than seen during 2014.

- The obligor quality of the Commercial Banking lending portfolio is predominantly rated good or better. New business is generally of good quality and better than the overall back book average. 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.

- The impairment charge as a percentage of average loans and advances improved to 0.04 per cent in the first half of 2015 from 0.05 per cent in the first half of 2014, and from 0.10 per cent for the half year to 31 December 2014.

- Impaired loans reduced by 16.4 per cent to £2,709 million at 30 June 2015 compared with 31 December 2014 (£3,241 million). Impaired loans as a percentage of closing loans and advances to customers reduced to 2.7 per cent from 3.2 per cent at 31 December 2014.

- Impairment provisions reduced to £1,183 million at 30 June 2015 (December 2014: £1,594 million) and includes collective unimpaired provisions of £277 million (December 2014: £338 million).

SME

- The SME Banking portfolio continues to grow within prudent credit risk appetite parameters. As a result of the Group's customer driven relationship management, net lending has increased 5 per cent since June 2014. This also reflects the Group's commitment to the UK economy and the Funding for Lending Scheme.

  - Portfolio credit quality has remained stable or improved across all key metrics.

- There was a net release of £4 million compared to a net charge of £5 million in the first half of 2014. SME continues to benefit from provision releases which offset minimal gross charges incurred.

Other Commercial Banking

- Other Commercial Banking comprises £72,319 million of gross loans and advances to customers in Mid Markets, Global Corporates and Financial Institutions.

- The Mid Markets portfolio remains UK focused and dependent on the performance of the domestic economy. Overall credit quality remained stable.

- The Global Corporate portfolio continues to be predominantly investment grade focused and is performing well against the backdrop of a stable economic UK environment. The quality of the portfolio remains good and is managed within the bank's prudent agreed risk appetite.

- The real estate business within the Group's Mid Markets and Global Corporate portfolio is focused upon the larger end of the UK property market ranging from medium sized and substantial unquoted private real estate portfolios up to the publicly listed and funds sector. Portfolio credit quality remains good being underpinned by seasoned management teams with proven asset management skills. The number of new impaired connections is minimal and new business propositions continue to be written in line with agreed risk appetite.

- 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 fully 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.

CREDIT RISK PORTFOLIO (continued)

Consumer Finance

- The impairment charge reduced by 49 per cent to £40 million in the first half of 2015 compared to £78 million in the first half of 2014. The reduction was driven by a continued underlying improvement of portfolio quality supported by write-backs from the sale of recoveries assets in the Credit Cards portfolio.

- Impaired loans decreased by £97 million in the first half of 2015 to £623 million which represented 2.8 per cent of closing loans and advances to customers (31 December 2014: 3.4 per cent).

Run-off

Ireland

- Within the Ireland book the most significant contribution to impaired loans is the Commercial Real Estate portfolio where 94.0 per cent of the portfolio is impaired. The impairment coverage ratio has increased to 86.8 per cent from 83.5 per cent at 31 December 2014, predominantly due to the impact of deleveraging activities. Net lending in Ireland Commercial Real Estate has reduced to £260 million (31 December 2014: £412 million).

- Total impaired loans within the Irish retail mortgage portfolio are broadly stable at £121 million (31 December 2014: £118 million). The average indexed loan to value (LTV) at 30 June 2015 increased to 89.5 per cent compared with 88.5 per cent at December 2014. The percentage of closing loans and advances with an indexed LTV in excess

of 100 per cent decreased to 38.2 per cent at 30 June 2015, compared with 38.9 per cent at 31 December 2014.

Corporate real estate and other corporate

- This portfolio predominantly consists of UK real estate loans together with other Corporate loans relating to real estate sectors, supported by trading activities (such as hotels, housebuilders and care homes).

- The continuing proactive management by the specialist teams in line with improvement in real estate market conditions has enabled a number of write-backs on previously impaired loans during 2015, with a net impairment write-back of £52 million in the first half of 2015, compared to an impairment charge of £92 million in the first half of 2014.

- Net loans and advances reduced by £1,104 million, from £3,036 million to £1,932 million for the first six months of 2015 (36 per cent reduction versus 35 per cent for first six months of 2014) as the portfolio continues to reduce significantly ahead of expectations.

Specialist Finance

- Net loans and advances for the Specialist Finance Asset Based Run-off portfolio stood at £4,576 million at 30 June 2015 (gross £4,942 million), and include Ship Finance, Aircraft Finance and Infrastructure, with around half of the remaining lending in the lower risk leasing sector.

- The portfolio also includes a reducing Treasury Asset legacy investment portfolio, which together with operating leases, gives total net external assets of £6,226 million at 30 June 2015 (gross £6,592 million).

CREDIT RISK PORTFOLIO (continued)

Run-off (continued)

Ireland retail mortgage LTV analysis

At 30 June 2015	Unimpaired		Impaired		Total	
	£m	%	£m	%	£m	%
Less than 60%	878	22.7	17	14.1	895	22.5
60% to 70%	322	8.3	5	4.1	327	8.2
70% to 80%	373	9.7	6	5.0	379	9.5
80% to 100%	843	21.8	19	15.7	862	21.6
100% to 120%	842	21.8	16	13.2	858	21.5
120% to 140%	445	11.5	17	14.1	462	11.6
Greater than 140%	160	4.2	41	33.8	201	5.1
Total	3,863	100.0	121	100.0	3,984	100.0
Average loan to value:						
Stock of residential mortgages						89.5
Impaired mortgages						151.2

At 31 December 2014	Unimpaired		Impaired		Total	
	£m	%	£m	%	£m	%
Less than 60%	979	22.5	18	15.2	997	22.4
60% to 70%	356	8.2	4	3.4	360	8.1

70% to 80%	425	9.8	4	3.4	429	9.6
80% to 100%	925	21.3	14	11.9	939	21.0
100% to 120%	933	21.5	15	12.7	948	21.2
120% to 140%	505	11.6	14	11.9	519	11.6
Greater than 140%	221	5.1	49	41.5	270	6.1
Total	4,344	100.0	118	100.0	4,462	100.0
Average loan to value:						
Stock of residential mortgages						88.5
Impaired mortgages						124.7

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 30 June 2015, UK retail secured loans and advances currently or recently subject to forbearance were 1.3 per cent (31 December 2014: 1.4 per cent) of total UK retail secured loans and advances.

At 30 June 2015, unsecured retail loans and advances currently or recently subject to forbearance were 1.4 per cent (31 December 2014: 1.6 per cent) of total unsecured retail loans and advances. Further analysis of the forborne loan balances is set out below.

UK retail lending

	Total loans and advances which are currently or recently forborne		Total current and recent forborne loans and advances which are impaired1		Impairment provisions as % of loans and advances which are currently or recently forborne	
	At June 2015 £m	At Dec 2014 £m	At June 2015 £m	At Dec 2014 £m	At June 2015 %	At Dec 2014 %
UK secured lending:						
Temporary forbearance arrangements						
Reduced contractual monthly payment	82	146	9	29	2.1	6.0
Reduced payment arrangements	428	552	55	69	4.4	3.4
	510	698	64	98	4.0	4.0
Permanent treatments						
Repair and term extensions	3,263	3,696	159	168	4.5	3.5
Total	3,773	4,394	223	266	4.4	3.5
UK unsecured lending:						
Loans and overdrafts	147	162	120	139	37.2	39.4

1

£3,550 million of current and recent forborne UK Secured loans and advances were not impaired at 30 June 2015 (31 December 2014: £4,128 million). £27 million of current and recent forborne loans and overdrafts were not impaired at 30 June 2015 (31 December 2014: £23 million).

CREDIT RISK PORTFOLIO (continued)

Commercial Banking forbearance

At 30 June 2015, £3,927 million (December 2014: £5,137 million) of total loans and advances were forborne of which £2,709 million (December 2014: £3,241 million) were impaired. The coverage ratio for forborne loans decreased from 31.0 per cent at 31 December 2014 to 30.1 per cent at 30 June 2015.

Unimpaired forborne loans and advances were £1,218 million at 30 June 2015 (December 2014: £1,896 million). The table below sets out the Group's largest unimpaired forborne loans and advances to commercial customers (exposures over £5 million) as at 30 June 2015 by type of forbearance:

	30 June 2015 £m	31 Dec 2014 £m
Type of unimpaired forbearance:		
UK1 exposures > £5m		
Covenants	421	1,018
Extensions	333	426
Multiple	72	6
	826	1,450
Exposures < £5m and other non-UK1	392	446
Total	1,218	1,896

1 Based on location of the office recording the transaction.

Consumer Finance forbearance

At 30 June 2015, Consumer Credit Cards loans and advances currently or recently subject to forbearance were 2.6 per cent (31 December 2014: 2.6 per cent) of total Consumer Credit Cards loans and advances. At 30 June 2015, Asset Finance retail loans and advances on open portfolios currently subject to forbearance were 1.7 per cent (31 December 2014: 2.1 per cent) of total Asset Finance retail loans and advances.

Analysis of the forborne loan balances

	Total loans and advances which are forborne		Total forborne loans and advances which are impaired1		Impairment provisions as % of loans and advances which are forborne	
	30 June 2015 £m	31 Dec 2014 £m	30 June 2015 £m	31 Dec 2014 £m	30 June 2015 %	31 Dec 2014 %
Consumer Credit Cards	234	234	127	140	26.4	29.1
Asset Finance	103	109	52	53	25.8	20.5

1 £158 million of current and recent forborne loans and advances (Consumer Credit Cards: £107 million, Asset Finance: £51 million) were not impaired at 30 June 2015 (31 December

2014: Consumer Credit Cards: £94 million, Asset Finance: £56 million).

CREDIT RISK PORTFOLIO (continued)

Run-off forbearance

Ireland commercial real estate and corporate
All loans and advances in Ireland commercial real estate and corporate are treated as forborne (30 June 2015: £2,658 million, 31 December 2014: £3,436 million). At 30 June 2015, £2,431 million (31 December 2014: £3,052 million) were impaired. The coverage ratio for forborne loans increased from 72.2 per cent at 31 December 2014 to 78.5 per cent at 30 June 2015.

Secured retail lending – Ireland
At 30 June 2015, Irish retail secured loans and advances currently or recently subject to forbearance were 5.3 per cent (31 December 2014: 6.3 per cent) of total Irish retail secured loans and advances. Further analysis of the forborne loan balances is set out below:

	Total loans and advances which are currently or recently forborne		Total current and recent forborne loans and advances which are impaired1		Impairment provisions as % of loans and advances which are currently or recently forborne	
	30 June 2015 £m	31 Dec 2014 £m	30 June 2015 £m	31 Dec 2014 £m	30 June 2015 %	31 Dec 2014 %
Ireland secured lending:						
Temporary forbearance arrangements						
Reduced payment arrangements	35	41	26	28	35.2	34.0
Permanent treatments						
Repair and term extensions	175	239	10	13	9.8	9.1
Total	210	280	36	41	14.1	12.7

1 £174 million of current and recent forborne loans and advances were not impaired at 30 June 2015 (31 December 2014: £239 million).

Corporate real estate, other corporate and Specialist Finance
At 30 June 2015, £1,725 million (31 December 2014: £1,998 million) of total loans and advances were forborne of which £1,677 million (31 December 2014: £1,912 million) were impaired. The coverage ratio for forborne loans increased from 58.3 per cent at 31 December 2014 to 61.3 per cent at 30 June 2015.

Unimpaired forborne loans and advances were £48 million at 30 June 2015 (December 2014: £86 million).

The table below sets out the Group's largest unimpaired forborne loans and advances (exposures over £5 million) as at 30 June 2015 by type of forbearance:

	30 June 2015	31 Dec 2014

	£m	£m
Type of unimpaired forbearance		
UK1 exposures > £5m		
Covenants	6	–
Extensions	–	47
Multiple	24	24
	30	71
Exposures < £5m and other non-UK1	18	15
Total	48	86

1 Based on location of the office recording the transaction.

FUNDING AND LIQUIDITY MANAGEMENT

The Group's funding position has been significantly strengthened and the Group has transformed its balance sheet structure in recent years. As a result the Group has set a new loan to deposit ratio range of 105 per cent to 110 per cent, which the Group remained comfortably within during the first half of 2015. During this period the Group has also maintained the liquidity buffer at a broadly consistent level.

Total funded assets reduced by £25.3 billion to £468.1 billion. Loans and advances to customers, excluding reverse repos, reduced by £25.3 billion and customer deposits, excluding repos, decreased by £30.6 billion all primarily driven by the sale of TSB. Excluding TSB, loans and advances decreased by £3.7 billion with increased net lending in Consumer Finance offset by reductions in the run off portfolio. Customer deposits on an equivalent basis decreased by £6 billion with increases in Commercial Banking offset by reductions in retail tactical deposits and online deposits within Consumer Finance.

Wholesale funding has reduced by £0.5 billion to £116.0 billion, with the volume with a residual maturity less than one year remaining broadly stable at £38.9 billion (£41.1 billion at 31 December 2014). The Group's term funding ratio (wholesale funding with a remaining life of over one year as a percentage of total wholesale funding) increased to 66 per cent (65 per cent at 31 December 2014).

During the first half of 2015 the Group's term issuance costs have remained broadly in line with 2014 and significantly lower than previous years. Term wholesale funding demand has been lower in recent years as the Group contracted its balance sheet. The Group now has a stable and managed term wholesale funding programme, consistent with the stable balance sheet. Term funding volumes are expected to remain broadly consistent with 2015 over the next few years.

Standard and Poor's, Moody's and Fitch have now completed their reviews of Lloyds Bank's ratings following the UK implementation of the EU Bank Recovery and Resolution Directive. In all cases, Lloyds Bank's ratings were either reaffirmed or upgraded due to the delivery of our strategy to be a low risk, customer focused UK bank and/or recognition of the protection Lloyds' sizeable subordinated debt buffer provides to senior creditors. In particular, Fitch upgraded Lloyds Bank to 'A+' from 'A' and revised the outlook to 'Stable' from 'Negative'. Moody's affirmed Lloyds' rating at 'A1' and improved the outlook to 'Positive' from 'Rating Under Review Negative'. S&P affirmed Lloyds' rating at 'A' and improved the outlook to 'Stable' from 'Credit Watch Negative'. Following these rating actions, Lloyds Bank's median rating has improved to 'A+' (previously 'A'). The effects of a potential downgrade from all three rating agencies are included in the Group liquidity stress testing.

The Liquidity Coverage Ratio (LCR) is due to become the Pillar 1 standard for liquidity in the UK from October 2015. Following finalisation of requirements from the PRA, the Group expects to meet the minimum requirements

and has a robust and well governed reporting framework in place for both regulatory reporting and internal management information.

The combination of a strong balance sheet and access to a wide range of funding markets, including government and central bank schemes, provides the Group with a broad range of options with respect to funding the balance sheet in the future, including in the event of a severe market dislocation.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Group funding position

	At 30 June 2015 £bn	At 31 Dec 2014 £bn	Change %
Funding requirement			
Loans and advances to customers1	452.3	477.6	(5)
Loans and advances to banks2	4.8	3.0	60
Debt securities	1.6	1.2	33
Reverse repurchase agreements	–	–	–
Available-for-sale financial assets – secondary3	5.1	8.0	(36)
Cash balances4	4.3	3.6	19
Funded assets	468.1	493.4	(5)
Other assets5	253.1	265.2	(5)
	721.2	758.6	(5)
On balance sheet primary liquidity assets6			
Reverse repurchase agreements	0.5	7.0	(93)
Balances at central banks – primary4	63.4	46.9	35
Available-for-sale financial assets – primary	27.1	48.5	(44)
Held-to-maturity financial assets – primary	20.0	–	
Trading and fair value through profit and loss	(3.1)	(6.1)	(49)
Repurchase agreements	(6.3)	–	
	101.6	96.3	6
Total Group assets	822.8	854.9	(4)
Less: other liabilities5	(242.0)	(240.3)	1
Funding requirement	580.8	614.6	(5)
Funded by			
Customer deposits7	416.5	447.1	(7)
Wholesale funding8	116.0	116.5	–
	532.5	563.6	(6)
Repurchase agreements	0.3	1.1	(73)
Total equity	48.0	49.9	(4)
Total funding	580.8	614.6	(5)

1 Excludes £0.1 billion (31 December 2014: £5.1 billion) of reverse repurchase agreements.
2 Excludes £18.3 billion (31 December 2014: £21.3 billion) of loans and advances to banks within the Insurance business and £0.4 billion (31 December 2014: £1.9 billion) of reverse repurchase agreements.
3 Secondary liquidity assets comprise a diversified pool of highly rated unencumbered collateral (including retained issuance).
4

Cash balances and balances at central banks – primary are combined in the Group's balance sheet.

5 Other assets and other liabilities primarily include balances in the Group's Insurance business and the fair value of derivative assets and liabilities.

6 Primary liquidity assets are PRA eligible liquid assets, including UK Gilts, US Treasuries, Euro AAA government debt, designated multilateral development bank debt and unencumbered cash balances held at central banks.

7 Excluding repurchase agreements at 30 June 2015 of £0.1 billion (31 December 2014: £nil).

8 The Group's definition of wholesale funding aligns with that used by other international market participants; including interbank deposits, debt securities in issue and subordinated liabilities.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Reconciliation of Group funding to the balance sheet

At 30 June 2015	Included in funding analysis £bn	Repos £bn	Fair value and other accounting methods £bn	Balance sheet £bn
Deposits from banks	8.9	8.1	–	17.0
Debt securities in issue	84.0	–	(6.2)	77.8
Subordinated liabilities	23.1	–	(0.5)	22.6
Total wholesale funding	116.0	8.1		
Customer deposits	416.5	0.1	–	416.6
Total	532.5	8.2		

At 31 December 2014	Included in funding analysis £bn	Repos £bn	Fair value and other accounting methods £bn	Balance sheet £bn
Deposits from banks	9.8	1.1	–	10.9
Debt securities in issue	80.6	–	(4.4)	76.2
Subordinated liabilities	26.1	–	(0.1)	26.0
Total wholesale funding	116.5	1.1		
Customer deposits	447.1	–	–	447.1
Total	563.6	1.1		

Analysis of 2015 total wholesale funding by residual maturity

	Less than one month £bn	One to three months £bn	Three to six months £bn	Six to nine months £bn	Nine months to one year £bn	One to two years £bn	Two to five years £bn	More than five years £bn	Total at 30 June 2015 £bn	Total at 31 Dec 2014 £bn

Deposit from banks	6.8	1.1	0.3	0.3	–	0.1	–	0.3	8.9	9.8
Debt securities in issue:										
Certificates of deposit	1.0	2.5	1.3	3.1	1.0	–	–	–	8.9	6.8
Commercial paper	2.4	2.6	0.3	0.4	0.2	–	–	–	5.9	7.3
Medium-term notes1	0.8	1.1	1.2	1.5	1.9	4.8	10.8	11.9	34.0	29.2
Covered bonds	1.2	–	–	–	1.2	6.7	4.5	10.6	24.2	25.2
Securitisation	0.5	1.3	2.0	1.1	0.6	2.7	1.8	1.0	11.0	12.1
	5.9	7.5	4.8	6.1	4.9	14.2	17.1	23.5	84.0	80.6
Subordinated liabilities	–	0.6	0.2	0.2	0.2	3.3	6.5	12.1	23.1	26.1
Total wholesale funding2	1 12.7	9.2	5.3	6.6	5.1	17.6	23.6	35.9	116.0	116.5

1 Medium-term notes include funding from the National Loan Guarantee Scheme (30 June 2015: £1.4 billion; 31 December 2014: £1.4 billion).
2 The Group's definition of wholesale funding aligns with that used by other international market participants; including interbank deposits, debt securities in issue and subordinated liabilities.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

Analysis of 2015 term issuance

	Sterling £bn	US Dollar £bn	Euro £bn	Other currencies £bn	Total £bn
Securitisation	0.7	0.9	–	–	1.6
Medium-term notes	0.3	3.5	1.8	0.8	6.4
Covered bonds	1.5	–	–	–	1.5
Private placements1	0.7	1.3	1.3	–	3.3
Subordinated liabilities	–	–	–	–	–
Total issuance	3.2	5.7	3.1	0.8	12.8

1 Private placements include structured bonds and term repurchase agreements (repos).

Term issuance for the first half of 2015 totalled £12.8 billion with the majority across medium term notes and private placements. Utilisation of the UK government's Funding for Lending Scheme (FLS) has further underlined the Group's support to the UK economic recovery and the Group remains committed to passing the benefits of this low cost funding on to its customers. As of 30 June 2015, the Group had drawn £24 billion under the FLS. The maturities for the FLS are fully factored into the Group's funding plan.

Liquidity portfolio
At 30 June 2015, the Banking business had £109.0 billion (31 December 2014: £109.3 billion) of highly liquid unencumbered assets in its primary liquidity portfolio which are available to meet cash and collateral outflows and PRA regulatory requirements. A separate liquidity portfolio to mitigate Insurance liquidity risk is managed within the

Insurance business. Primary liquid assets are broadly equivalent to the Group's total wholesale funding, and thus provides a substantial buffer in the event of continued market dislocation.

Primary liquidity	At 30 June 2015 £bn	At 31 Dec 2014 £bn	Average 2015 £bn	Average 2014 £bn
Central bank cash deposits	63.4	46.9	64.6	62.3
Government/MDB bonds1	45.6	62.4	47.6	47.9
Total	109.0	109.3	112.2	110.2

Secondary liquidity	At 30 June 2015 £bn	At 31 Dec 2014 £bn	Average 2015 £bn	Average 2014 £bn
High-quality ABS/covered bonds2	3.4	3.9	3.7	3.6
Credit institution bonds2	0.1	0.9	0.6	1.4
Corporate bonds2	0.2	0.6	0.5	0.3
Own securities (retained issuance)	16.4	20.6	17.8	22.2
Other securities	5.7	5.7	6.0	5.5
Other3	62.7	67.5	66.7	74.1
Total	88.5	99.2	95.3	107.1
Total liquidity	197.5	208.5		

1 Designated multilateral development bank (MDB).
2 Assets rated A- or above.
3 Includes other central bank eligible assets.

FUNDING AND LIQUIDITY MANAGEMENT (continued)

In addition the Banking business had £88.5 billion (31 December 2014: £99.2 billion) of secondary liquidity, the vast majority of which is eligible for use in a range of central bank or similar facilities and the Group routinely makes use of as part of its normal liquidity management practices. Future use of such facilities will be based on prudent liquidity management and economic considerations, having regard for external market conditions.

The entire primary liquidity portfolio and a subset of the secondary portfolio are LCR eligible. The Group considers diversification across geography, currency, markets and tenor when assessing appropriate holdings of primary and secondary liquid assets. This liquidity is managed as a single pool in the centre and is under the control of the function charged with managing the liquidity of the Group. It is available for deployment at immediate notice, subject to complying with regulatory requirements, and is a key component of the Group's liquidity management process.

Encumbered assets

The Board and Group Asset & Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. At 30 June 2015, the Group had £134.7 billion (31 December 2014: £134.9 billion) of externally encumbered and £688.1 billion (31 December 2014: £720.0 billion) of unencumbered on balance sheet assets. Primarily the Group encumbers mortgages, lending and credit card receivables through the issuance programmes and tradable securities through securities financing activity. Refer to the 2014 Annual Report and

Accounts for further details on how the Group classifies assets for encumbrance purposes.

CAPITAL MANAGEMENT

The Group continued to strengthen its Common Equity Tier 1 (CET1) ratio during the first half of 2015 through increased underlying profits and a reduction in risk-weighted assets. The positive impact of these items was partly offset by the interim dividend, conduct charges and the disposal of TSB.

- The CET1 ratio increased 0.5 percentage points from 12.8 per cent to 13.3 per cent.
- The leverage ratio has remained stable at 4.9 per cent.
- The transitional total capital ratio reduced 0.3 percentage points from 22.0 per cent to 21.7 per cent.

Regulatory capital developments

The regulatory capital framework within which the Group operates continues to be developed at global, European and UK levels focusing on RWA calibration, leverage and bail in requirements, examples of which include the following:

- At a global level the Basel Committee has issued consultation papers on the capital treatment of interest rate risk in the banking book (IRRBB) and on proposed revisions to the framework for the capital charge relating to Credit Valuation Adjustment (CVA) variability. We also await the outcome of the, now closed, consultations on proposed revisions to the Standardised Approach risk-weight framework in addition to initial proposals on the design of a new capital floors framework. In the meantime the fundamental review of the trading book (FRTB) is ongoing.

- At a European level the European Banking Authority (EBA) has issued recommendations about the CVA capital treatment, including the possible removal of EU exemptions and final draft Regulatory Technical Standards (RTS) on Prudent Valuation Adjustments (PVA) and the criteria for determining minimum requirements for own funds and eligible liabilities (MREL).

- In the UK the PRA is consulting on proposals for implementing the UK leverage ratio framework as recommended by the Financial Policy Committee. It has also recently finalised proposals to reform the Pillar 2 framework, including new approaches for determining Pillar 2A capital requirements and the setting of Pillar 2B capital requirements (the PRA buffer).

The Group continues to monitor these developments very closely, analysing the potential capital impacts to ensure the Group continues to maintain a strong capital position that exceeds the minimum regulatory requirements and the Group’s risk appetite and is consistent with market expectations.

The Group is subject to Pillar 2A Individual Capital Guidance (ICG) from the PRA. This reflects a point in time estimate by the PRA, which may change over time, of the amount of capital that is needed in relation to risks not covered by Pillar 1. The Group’s underlying ICG remains unchanged over the half-year and as at 30 June 2015 equated to 3.9 per cent of risk-weighted assets, of which 2.2 per cent must be covered by CET1 capital. The 10 basis point increase in these percentages over the half-year is as a result of lower risk-weighted assets.

Capital position at 30 June 2015

The Group’s capital position as at 30 June 2015 is presented in the following section applying CRD IV transitional arrangements, as implemented in the UK by the PRA, and also on a fully loaded CRD IV basis.

CAPITAL MANAGEMENT (continued)

Capital resources	Transitional At 30 June 2015 £m	Transitional At 31 Dec 2014 £m	Fully loaded At 30 June 2015 £m	Fully loaded At 31 Dec 2014 £m
Common equity tier 1				
Shareholders' equity per balance sheet	42,256	43,335	42,256	43,335
Adjustment to retained earnings for foreseeable dividends	(535)	(535)	(535)	(535)
Deconsolidation of insurance entities1	(1,262)	(824)	(1,262)	(824)
Adjustment for own credit	116	158	116	158
Cash flow hedging reserve	(429)	(1,139)	(429)	(1,139)
Other adjustments	239	333	239	333
	40,385	41,328	40,385	41,328
less: deductions from common equity tier 1				
Goodwill and other intangible assets	(1,779)	(1,875)	(1,779)	(1,875)
Excess of expected losses over impairment provisions and value adjustments	(394)	(565)	(394)	(565)
Removal of defined benefit pension surplus	(718)	(909)	(718)	(909)
Securitisation deductions	(211)	(211)	(211)	(211)
Significant investments1	(2,575)	(2,546)	(2,575)	(2,546)
Deferred tax assets	(4,551)	(4,533)	(4,551)	(4,533)
Common equity tier 1 capital	30,157	30,689	30,157	30,689
Additional tier 1				
Other equity instruments	5,355	5,355	5,355	5,355
Preference shares and preferred securities2	4,528	4,910	–	-
Transitional limit and other adjustments	(706)	(537)	–	-
	9,177	9,728	5,355	5,355
less: deductions from tier 1				
Significant investments1	(1,180)	(859)	–	–
Total tier 1 capital	38,154	39,558	35,512	36,044
Tier 2				
Other subordinated liabilities2	18,111	21,132	18,111	21,132
Deconsolidation of instruments issued by insurance entities1	(2,133)	(2,522)	(2,133)	(2,522)
Adjustments for non-eligible instruments	(467)	(675)	(1,095)	(1,857)
Amortisation and other adjustments	(3,224)	(3,738)	(4,840)	(5,917)
	12,287	14,197	10,043	10,836
Eligible provisions	475	333	475	333
less: deductions from tier 2				
Significant investments1	(1,759)	(1,288)	(2,939)	(2,146)

Total capital resources	49,157	52,800	43,091	45,067
Risk-weighted assets	226,980	239,734	226,980	239,734
Common equity tier 1 capital ratio	13.3%	12.8%	13.3%	12.8%
Tier 1 capital ratio	16.8%	16.5%	15.6%	15.0%
Total capital ratio	21.7%	22.0%	19.0%	18.8%

1 For regulatory capital purposes, the Group's Insurance business is deconsolidated and replaced by the amount of the Group's investment in the business. A part of this amount is deducted from capital (shown as 'significant investments' in the table above) and the remaining amount is risk weighted, forming part of threshold risk-weighted assets.
2 Preference shares, preferred securities and other subordinated liabilities are categorised as subordinated liabilities in the balance sheet.

CAPITAL MANAGEMENT (continued)

The key differences between the transitional capital calculation as at 30 June 2015 and the fully loaded equivalent are as follows:

- Capital securities that previously qualified as tier 1 or tier 2 capital, but do not fully qualify under CRD IV, can be included in tier 1 or tier 2 capital (as applicable) up to specified limits which reduce by 10 per cent per annum until 2022.

- The significant investment deduction from AT1 will gradually transition to tier 2.

The movements in the transitional CET1, AT1, tier 2 and total capital positions in the period are provided below.

	Common Equity Tier 1 £m	Additional Tier 1 £m	Tier 2 £m	Total capital £m
At 31 December 2014	30,689	8,869	13,242	52,800
Profit attributable to ordinary shareholders1	600			600
Eligible minority interest	(470)			(470)
Adjustment to retained earnings for foreseeable dividends	(535)			(535)
Movement in treasury shares and employee share schemes	(269)			(269)
Pension movements:				
Removal of defined benefit pension surplus	191			191
Movement through other comprehensive income	(242)			(242)
Available-for-sale reserve	(67)			(67)
Deferred tax asset	(18)			(18)
Goodwill and other intangible assets	96			96
Excess of expected losses over impairment provisions and value	171			171

adjustments				
Significant investments	(29)	(321)	(471)	(821)
Eligible provisions			142	142
Subordinated debt movements:				
Repurchases, redemptions and other		(551)	(1,910)	(2,461)
Other movements	40			40
At 30 June 2015	30,157	7,997	11,003	49,157

1 Profits made by Insurance are removed from CET1 capital. However, when dividends are paid to the Group by Insurance these are recognised through CET1 capital.

CET1 capital resources have reduced by £532 million in the period, largely due to the removal of eligible minority interest related to TSB, the interim dividend and movements in treasury shares and employee share schemes. The reductions were partially offset by profit attributable to ordinary shareholders, reflecting underlying profit offset by conduct charges and the disposal of TSB, and a reduction in the excess of expected losses over impairment provisions and value adjustments.

AT1 capital resources have reduced by £872 million in the period, primarily reflecting the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments and an increase in significant investments.

Tier 2 capital resources have reduced by £2,239 million in the period largely reflecting calls and redemptions, amortisation of dated instruments, foreign exchange movements and an increase in significant investments, partially offset by an increase in eligible provisions.

CAPITAL MANAGEMENT (continued)

Risk-weighted assets	At 30 June 2015 £m	At 31 Dec 2014 £m
Foundation Internal Ratings Based (IRB) Approach	70,367	72,393
Retail IRB Approach	67,529	72,886
Other IRB Approach	17,385	15,324
IRB Approach	155,281	160,603
Standardised Approach	21,117	25,444
Contributions to the default fund of a central counterparty	280	515
Credit risk	176,678	186,562
Counterparty credit risk	8,006	9,108
Credit valuation adjustment risk	2,172	2,215
Operational risk	26,279	26,279
Market risk	3,629	4,746
Underlying risk-weighted assets	216,764	228,910
Threshold risk-weighted assets1	10,216	10,824
Total risk-weighted assets	226,980	239,734

1 Threshold risk-weighted assets reflect the element of significant investments and deferred tax assets that are permitted to be

risk-weighted instead of deducted from common equity tier 1 capital under threshold rules. Significant investments primarily arise from investment in the Group's Insurance business.

Risk-weighted assets movement by key driver	Credit risk1	Counter party credit risk1	Market risk	Operational risk	Total
	£m	£m	£m	£m	£m
Risk-weighted assets at 31 December 2014	186,562	11,323	4,746	26,279	228,910
Management of the balance sheet	(1,849)	(572)	(309)	–	(2,730)
Disposals	(5,818)	(2)	–	–	(5,820)
External economic factors	(3,185)	(491)	(19)	–	(3,695)
Model and methodology changes	1,054	(108)	(789)	–	157
Regulatory policy change	–	–	–	–	–
Other	(86)	28	–	–	(58)
Risk-weighted assets	176,678	10,178	3,629	26,279	216,764
Threshold risk-weighted assets					10,216
Total risk-weighted assets					226,980

1 Credit risk includes movements in contributions to the default fund of central counterparties and counterparty credit risk includes the movements in credit valuation adjustment risk.

CAPITAL MANAGEMENT (continued)

The risk-weighted assets movement tables provide analyses of the movement in risk-weighted assets in the period by risk type and an insight into the key drivers of the movements. The key driver analysis is compiled on a monthly basis through the identification and categorisation of risk-weighted asset movements and is subject to management judgment.

Credit risk-weighted assets reduced from £186.6 billion to £176.7 billion driven by the following key movements:

- Management of the balance sheet includes risk-weighted asset movements arising from new lending and asset run-off. During the first half of 2015, risk-weighted assets decreased by £1.8 billion as a result of the active management of lending portfolios, partially offset by targeted lending growth.

- Disposals include risk-weighted asset reductions arising from the sale of assets, portfolios and businesses. Disposals reduced risk-weighted assets by £5.8 billion, primarily driven by the completion of the sale of TSB as well as other small disposals and related reductions in sundry debtors.
- External economic factors capture movements driven by changes in the economic environment. The reduction in risk-weighted assets of £3.2 billion is mainly due to improvements in credit quality and favourable foreign exchange rate movements.

- Model and methodology changes include the movement in risk-weighted assets arising from new model implementation, model enhancement and changes in credit risk approach applied to certain portfolios. The increase in risk-weighted assets of £1.1 billion is principally driven by an update to models in Commercial Banking.

Counterparty credit risk reductions of £1.1 billion reflect reduced mark to market valuations and trade compressions.

Market risk-weighted assets reduced by £1.1 billion, reflecting continued optimisation of the balance sheet as a result of active portfolio management across Financial Markets, and market risk model changes.

Enhanced Capital Notes (ECNs)
In 2009 the Group undertook a significant capital raising exercise which included the issuance of approximately £8.3 billion of ECNs. Approximately £3.3 billion of these ECNs remain outstanding.

Upon issuance, the ECNs contributed to going concern capital in stress tests applied by the regulator and were structured with a conversion trigger in excess of the then minimum regulatory requirements and stress test threshold. However, given subsequent changes to regulatory capital rules, including changes in the definition of core capital, the conversion trigger for the ECNs is substantially below today's minimum regulatory requirements and stress test thresholds. The terms of the ECNs provide the Group with the right to call any series of these ECNs at par or a make-whole price in the event that they cease to be taken into account as core capital for the purposes of any stress test applied by the Prudential Regulation Authority (PRA) (a Capital Disqualification Event).

After the ECNs were not taken into account for the purpose of core capital for the 2014 PRA stress test, the Group announced on 16 December 2014 that it intended to approach the PRA to seek permission to redeem certain series of ECNs. On 31 March 2015 such permission was received from the PRA under Article 78 of the Capital Requirements Regulation (Regulation 575/2013/EU). The Group also notified investors that the Trustee intended to seek a declaratory judgment in respect of the interpretation of certain terms of the ECNs.

On 3 June 2015, the Chancery Division of the High Court handed down its judgment in respect of the ECNs, in which it found that a Capital Disqualification Event had not occurred. The Group has filed an appeal with the Court of Appeal and the hearing is expected to take place in the week commencing 24 August 2015.

CAPITAL MANAGEMENT (continued)

Leverage ratio
In January 2015 the existing CRD IV rules on the calculation of the leverage ratio were amended to align with the European Commission's interpretation of the revised Basel III leverage ratio framework. The Group's leverage ratio has been calculated in accordance with the amended CRD IV rules on leverage.

	Fully loaded	
	At 30 June 2015 £m	At 31 Dec 20141 £m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	30,157	30,689
Additional tier 1 capital	5,355	5,355
Total tier 1 capital	35,512	36,044
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	27,980	36,128
Securities financing transactions (SFTs)	33,668	43,772
Loans and advances and other assets	761,184	774,996
Total assets	822,832	854,896
Deconsolidation adjustments2		

Derivative financial instruments	(1,421)	(1,663)
Securities financing transactions (SFTs)	1,908	1,655
Loans and advances and other assets	(145,491)	(144,114)
Total deconsolidation adjustments	(145,004)	(144,122)
Derivatives adjustments		
Adjustment for regulatory netting	(18,515)	(24,187)
Adjustment to cash collateral	1,058	(1,024)
Net written credit protection	309	425
Regulatory potential future exposure	12,407	12,722
Total derivatives adjustments	(4,741)	(12,064)
Counterparty credit risk add-on for SFTs	1,022	1,364
Off-balance sheet items	55,695	50,980
Regulatory deductions and other adjustments	(9,636)	(10,362)
Total exposure	720,168	740,692
Leverage ratio	4.9%	4.9%

1 Restated to align with the amended CRD IV rules on leverage implemented in January 2015.
2 Deconsolidation adjustments predominantly reflect the deconsolidation of assets related to Group subsidiaries that fall outside the scope of the Group's regulatory capital consolidation (primarily the Group's insurance entities).

CAPITAL MANAGEMENT (continued)

Key movements
The Group's fully loaded leverage ratio remained stable at 4.9 per cent with the impact of the reduction in tier 1 capital entirely offset by the £20.5 billion reduction in the exposure measure, the latter largely reflecting the reduction in balance sheet assets arising, in part, from the disposal of TSB.

The derivatives exposure measure, representing derivative financial instruments per the balance sheet net of deconsolidation and derivatives adjustments, reduced by £0.6 billion primarily reflecting market movements and trade compressions offset by adjustments for ineligible cash collateral.

The SFT exposure measure, representing SFTs per the balance sheet inclusive of deconsolidation adjustments and counterparty credit risk add-on, reduced by £10.2 billion reflecting active balance sheet management, reduced trading volumes and further application of eligible on-balance sheet netting.

Off-balance sheet items increased by £4.7 billion, partly reflecting new mortgage offers placed during the period.

STATUTORY INFORMATION

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CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED INCOME STATEMENT

	Note	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Interest and similar income		8,975	9,728	9,483
Interest and similar expense		(3,483)	(4,466)	(4,085)
Net interest income		5,492	5,262	5,398
Fee and commission income		1,598	1,836	1,823
Fee and commission expense		(607)	(609)	(793)
Net fee and commission income		991	1,227	1,030
Net trading income		3,018	4,588	5,571
Insurance premium income		1,414	3,492	3,633
Other operating income		890	(535)	226
Other income		6,313	8,772	10,460

Total income		11,805	14,034	15,858
Insurance claims		(2,998)	(6,338)	(7,155)
Total income, net of insurance claims		8,807	7,696	8,703
Regulatory provisions		(1,835)	(1,100)	(2,025)
Other operating expenses		(5,618)	(5,092)	(5,668)
Total operating expenses	3	(7,453)	(6,192)	(7,693)
Trading surplus		1,354	1,504	1,010
Impairment	4	(161)	(641)	(111)
Profit before tax		1,193	863	899
Taxation	5	(268)	(164)	(99)
Profit for the period		925	699	800
Profit attributable to ordinary shareholders		677	574	551
Profit attributable to other equity holders1		197	91	196
Profit attributable to equity holders		874	665	747
Profit attributable to non-controlling interests		51	34	53
Profit for the period		925	699	800
Basic earnings per share	6	1.0p	0.8p	0.8p
Diluted earnings per share	6	1.0p	0.8p	0.8p

1 The profit after tax attributable to other equity holders of £197 million (half-year to 30 June 2014: £91 million; half-year to 31 December 2014: £196 million) is offset in reserves by a tax credit attributable to ordinary shareholders of £40 million (half-year to 30 June 2014: £20 million; half-year to 31 December 2014: £42 million).

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Profit for the period	925	699	800
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements (note 11):			
Remeasurements before taxation	(302)	(599)	1,273
Taxation	60	120	(255)
	(242)	(479)	1,018

Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value	(16)	557	133
Income statement transfers in respect of disposals	(49)	(85)	(46)
Income statement transfers in respect of impairment	–	2	–
Taxation	(2)	(51)	38
	(67)	423	125
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value	(404)	1,008	2,888
Net income statement transfers	(481)	(572)	(581)
Taxation	175	(86)	(463)
	(710)	350	1,844
Currency translation differences (tax: nil)	27	(1)	(2)
Other comprehensive income for the period, net of tax	(992)	293	2,985
Total comprehensive income for the period	(67)	992	3,785
Total comprehensive income attributable to ordinary shareholders	(315)	867	3,536
Total comprehensive income attributable to other equity holders	197	91	196
Total comprehensive income attributable to equity holders	(118)	958	3,732
Total comprehensive income attributable to non-controlling interests	51	34	53
Total comprehensive income for the period	(67)	992	3,785

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

CONSOLIDATED BALANCE SHEET

Assets	Note	At 30 June 2015 £ million	At 31 Dec 2014 £ million
Cash and balances at central banks		67,687	50,492
Items in course of collection from banks		1,159	1,173
Trading and other financial assets at fair value through profit or loss	7	147,849	151,931
Derivative financial instruments	8	27,980	36,128
Loans and receivables:			
Loans and advances to banks		23,548	26,155
Loans and advances to customers	9	452,427	482,704
Debt securities		1,569	1,213
		477,544	510,072
Available-for-sale financial assets		32,173	56,493

Held-to-maturity investments		19,960	–
Investment properties		4,702	4,492
Goodwill		2,016	2,016
Value of in-force business		4,863	4,864
Other intangible assets		1,942	2,070
Tangible fixed assets		8,154	8,052
Current tax recoverable		195	127
Deferred tax assets		4,039	4,145
Retirement benefit assets	11	908	1,147
Other assets		21,661	21,694
Total assets		822,832	854,896

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

CONSOLIDATED BALANCE SHEET (continued)

Equity and liabilities	Note	At 30 June 2015 £ million	At 31 Dec 2014 £ million
Liabilities			
Deposits from banks		16,966	10,887
Customer deposits		416,595	447,067
Items in course of transmission to banks		790	979
Trading and other financial liabilities at fair value through profit or loss		63,328	62,102
Derivative financial instruments	8	27,778	33,187
Notes in circulation		1,090	1,129
Debt securities in issue	10	77,776	76,233
Liabilities arising from insurance contracts and participating investment contracts		81,183	86,918
Liabilities arising from non-participating investment contracts		26,131	27,248
Unallocated surplus within insurance businesses		290	320
Other liabilities		35,251	28,105
Retirement benefit obligations	11	467	453
Current tax liabilities		24	69
Deferred tax liabilities		40	54
Other provisions		4,443	4,200
Subordinated liabilities		22,639	26,042
Total liabilities		774,791	804,993
Equity			
Share capital		7,146	7,146
Share premium account		17,292	17,281
Other reserves		12,455	13,216
Retained profits		5,363	5,692
Shareholders’ equity		42,256	43,335

Other equity instruments	5,355	5,355
Total equity excluding non-controlling interests	47,611	48,690
Non-controlling interests	430	1,213
Total equity	48,041	49,903
Total equity and liabilities	822,832	854,896

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Other equity instruments £ million	Non-controlling interests £ million	Total £ million
Balance at 1 January 2015	24,427	13,216	5,692	43,335	5,355	1,213	49,903
Comprehensive income							
Profit for the period	–	–	874	874	–	51	925
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(242)	(242)	–	–	(242)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(67)	–	(67)	–	–	(67)
Movements in cash flow hedging reserve, net of tax	–	(710)	–	(710)	–	–	(710)
Currency translation differences (tax: nil)	–	27	–	27	–	–	27
Total other comprehensive income	–	(750)	(242)	(992)	–	–	(992)
Total comprehensive income	–	(750)	632	(118)	–	51	(67)
Transactions with owners							
Dividends	–	–	(535)	(535)	–	(10)	(545)
Distributions on other equity instruments, net of tax	–	–	(157)	(157)	–	–	(157)

Redemption of preference shares	11	(11)	–	–	–	–	–
Movement in treasury shares	–	–	(479)	(479)	–	–	(479)
Value of employee services:							
Share option schemes	–	–	60	60	–	–	60
Other employee award schemes	–	–	150	150	–	–	150
Adjustment on sale of interest in TSB Banking Group plc (TSB) (note 16)	–	–	–	–	–	(825)	(825)
Other changes in non-controlling interests	–	–	–	–	–	1	1
Total transactions with owners	11	(11)	(961)	(961)	–	(834)	(1,795)
Balance at 30 June 2015	24,438	12,455	5,363	42,256	5,355	430	48,041

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders						
	Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Other equity instruments £ million	Non-controlling interests £ million	Total £ million
Balance at 1 January 2014	24,424	10,477	4,088	38,989	–	347	39,336
Comprehensive income							
Profit for the period	–	–	665	665	–	34	699
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(479)	(479)	–	–	(479)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	423	–	423	–	–	423

Movements in cash flow hedging reserve, net of tax	–	350	–	350	–	–	350
Currency translation differences (tax: nil)	–	(1)	–	(1)	–	–	(1)
Total other comprehensive income	–	772	(479)	293	–	–	293
Total comprehensive income	–	772	186	958	–	34	992
Transactions with owners							
Dividends	–	–	–	–	–	(8)	(8)
Distributions on other equity instruments, net of tax	–	–	(71)	(71)	–	–	(71)
Issue of ordinary shares	3	–	–	3	–	–	3
Issue of Additional Tier 1 securities	–	–	(26)	(26)	5,355	–	5,329
Movement in treasury shares	–	–	(263)	(263)	–	–	(263)
Value of employee services:							
Share option schemes	–	–	21	21	–	–	21
Other employee award schemes	–	–	99	99	–	–	99
Adjustment on sale of non-controlling interest in TSB	–	–	(135)	(135)	–	565	430
Other changes in non-controlling interests	–	–	–	–	–	10	10
Total transactions with owners	3	–	(375)	(372)	5,355	567	5,550
Balance at 30 June 2014	24,427	11,249	3,899	39,575	5,355	948	45,878

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders						
	Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Other equity instruments £ million	Non-controlling interests £ million	Total £ million
Balance at 1 July 2014	24,427	11,249	3,899	39,575	5,355	948	45,878

Comprehensive income							
Profit for the period	–	–	747	747	–	53	800
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	1,018	1,018	–	–	1,018
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	125	–	125	–	–	125
Movements in cash flow hedging reserve, net of tax	–	1,844	–	1,844	–	–	1,844
Currency translation differences (tax: nil)	–	(2)	–	(2)	–	–	(2)
Total other comprehensive income	–	1,967	1,018	2,985	–	–	2,985
Total comprehensive income	–	1,967	1,765	3,732	–	53	3,785
Transactions with owners							
Dividends	–	–	–	–	–	(19)	(19)
Distributions on other equity instruments, net of tax	–	–	(154)	(154)	–	–	(154)
Issue of other equity instruments	–	–	5	5	–	–	5
Movement in treasury shares	–	–	(23)	(23)	–	–	(23)
Value of employee services:							
Share option schemes	–	–	102	102	–	–	102
Other employee award schemes	–	–	134	134	–	–	134
Adjustment on sale of non-controlling interest in TSB			(36)	(36)	–	240	204
Other changes in non-controlling interests	–	–	–	–	–	(9)	(9)
Total transactions with owners	–	–	28	28	–	212	240
Balance at 31 December 2014	24,427	13,216	5,692	43,335	5,355	1,213	49,903

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

CONSOLIDATED CASH FLOW STATEMENT

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Profit before tax	1,193	863	899
Adjustments for:			
Change in operating assets	26,512	1,932	(2,804)
Change in operating liabilities	81	3,172	8,820
Non-cash and other items	(6,417)	1,651	(4,147)
Tax (paid) received	(49)	2	(35)
Net cash provided by operating activities	21,320	7,620	2,733
Cash flows from investing activities			
Purchase of financial assets	(12,358)	(7,363)	(4,170)
Proceeds from sale and maturity of financial assets	14,838	1,685	2,983
Purchase of fixed assets	(1,564)	(1,651)	(1,791)
Proceeds from sale of fixed assets	526	725	1,318
Acquisition of businesses, net of cash acquired	–	(1)	–
Disposal of businesses, net of cash disposed	(4,282)	536	7
Net cash used in investing activities	(2,840)	(6,069)	(1,653)
Cash flows from financing activities			
Dividends paid to ordinary shareholders	(535)	–	–
Distributions on other equity instruments	(197)	(91)	(196)
Dividends paid to non-controlling interests	(10)	(8)	(19)
Interest paid on subordinated liabilities	(1,250)	(1,416)	(789)
Proceeds from issue of subordinated liabilities	–	–	629
Proceeds from issue of ordinary shares	–	3	–
Repayment of subordinated liabilities	(2,068)	(1,240)	(1,783)
Changes in non-controlling interests	1	440	195
Net cash used in financing activities	(4,059)	(2,312)	(1,963)
Effects of exchange rate changes on cash and cash equivalents	(2)	4	(10)
Change in cash and cash equivalents	14,419	(757)	(893)
Cash and cash equivalents at beginning of period	65,147	66,797	66,040
Cash and cash equivalents at end of period	79,566	66,040	65,147

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

1. Accounting policies, presentation and estimates

These condensed consolidated half-year financial statements as at and for the period to 30 June 2015 have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority (FCA)

and with International Accounting Standard 34 (IAS 34), Interim Financial Reporting as adopted by the European Union and comprise the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2014 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Copies of the 2014 Annual Report and Accounts are available on the Group's website and are available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The British Bankers' Association's Code for Financial Reporting Disclosure (the Disclosure Code) sets out disclosure principles together with supporting guidance in respect of the financial statements of UK banks. The Group has adopted the Disclosure Code and these condensed consolidated half-year financial statements have been prepared in compliance with the Disclosure Code's principles. Terminology used in these condensed consolidated half-year financial statements is consistent with that used in the Group's 2014 Annual Report and Accounts where a glossary of terms can be found.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position and have had regard to the factors set out in Principal risks and uncertainties: Funding and liquidity on page 28.

The accounting policies are consistent with those applied by the Group in its 2014 Annual Report and Accounts.

During the half-year to 30 June 2015, government debt securities with a carrying value of £19,938 million, previously classified as available-for-sale, were reclassified to held-to-maturity. Unrealised gains on the transferred securities of £194 million previously taken to equity continue to be held in the available-for-sale revaluation reserve and will be amortised to the income statement over the remaining lives of the securities using the effective interest method or until the assets become impaired.

Future accounting developments

Details of those IFRS pronouncements which will be relevant to the Group but which will not be effective at 31 December 2015 and which have not been applied in preparing these financial statements are set out in note 19.

Critical accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There have been no significant changes in the basis upon which estimates have been determined, compared to that applied at 31 December 2014.

2. Segmental analysis

Lloyds Banking Group provides a wide range of banking and financial services in the UK and in certain locations overseas. The Group Executive Committee (GEC) remains the chief operating decision maker for the Group.

The segmental results and comparatives are presented on an underlying basis, the basis reviewed by the chief operating decision maker. The effects of asset sales, volatile items, the insurance grossing adjustment, liability management, Simplification costs, TSB build and dual-running costs, the charge relating to the TSB disposal, regulatory provisions, certain past service pension credits or charges, the amortisation of purchased intangible assets

and the unwind of acquisition-related fair value adjustments are excluded in arriving at underlying profit.

Following the announcement of the sale of TSB to Banco Sabadell, the Group no longer considers TSB to be a separate financial reporting segment and as a consequence its results are included in Other. The Group's activities are organised into four financial reporting segments: Retail; Commercial Banking; Consumer Finance and Insurance. There has been no change to the descriptions of these segments as provided in note 4 to the Group's financial statements for the year ended 31 December 2014.

There has been no change to the Group's segmental accounting for internal segment services or derivatives entered into by units for risk management purposes since 31 December 2014.

Half-year to 30 June 2015	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims £m	Profit (loss) before tax £m	External revenue £m	Inter-segment revenue £m
Underlying basis						
Retail	3,743	559	4,302	1,839	4,629	(327)
Commercial Banking	1,234	1,023	2,257	1,193	1,842	415
Consumer Finance	658	677	1,335	539	1,462	(127)
Insurance	(73)	1,025	952	584	1,241	(289)
Other	345	–	345	228	17	328
Group	5,907	3,284	9,191	4,383	9,191	–
Reconciling items:						
Insurance grossing adjustment	(241)	287	46	–		
Asset sales, volatile items and liability management1	26	(384)	(358)	(355)		
Volatility relating to the insurance business	–	18	18	18		
Simplification costs	–	–	–	(32)		
TSB build and dual-running costs	–	–	–	(85)		
Charge relating to the TSB disposal	–	5	5	(660)		
Payment protection insurance provision	–	–	–	(1,400)		
Other conduct provisions	–	–	–	(435)		
Amortisation of purchased intangibles	–	–	–	(164)		
Fair value unwind	(200)	105	(95)	(77)		
Group – statutory	5,492	3,315	8,807	1,193		

1 Comprises (i) losses on disposals of assets which are not part of normal business operations (£52 million); (ii) the net effect of banking volatility, changes in the fair value of the equity conversion feature of the Group's Enhanced Capital Notes and net derivative valuation adjustments (losses of £297 million); and (iii) the results of liability management exercises (losses of £6 million).

2. Segmental analysis (continued)

Half-year to 30 June 2014	Net interest income £m	Other income, net of insurance claims £m	Total income, net of insurance claims £m	Profit (loss) before tax £m	External revenue £m	Inter-segment revenue £m
Underlying basis						
Retail	3,493	700	4,193	1,710	4,497	(304)
Commercial Banking	1,234	984	2,218	1,156	1,785	433
Consumer Finance	645	675	1,320	534	1,377	(57)
Insurance	(64)	854	790	461	859	(69)
Other	496	235	731	(42)	734	(3)
Group	5,804	3,448	9,252	3,819	9,252	–
Reconciling items:						
Insurance grossing adjustment	(239)	314	75	–		
Asset sales, volatile items and liability management1	10	(1,135)	(1,125)	(1,130)		
Volatility relating to the insurance business	–	(122)	(122)	(122)		
Simplification costs	–	–	–	(519)		
TSB build and dual-running costs	–	–	–	(309)		
Payment protection insurance provision	–	–	–	(600)		
Other conduct provisions	–	–	–	(500)		
Past service credit2	–	–	–	710		
Amortisation of purchased intangibles	–	–	–	(171)		
Fair value unwind	(313)	(71)	(384)	(315)		
Group – statutory	5,262	2,434	7,696	863		

1 Comprises (i) gains or losses on disposals of assets which are not part of normal business operations (£94 million); (ii) the net effect of banking volatility, changes in the fair value of the equity conversion feature of the Group's Enhanced Capital Notes and net derivative valuation adjustments (gain of £152 million); and (iii) the results of liability management exercises (losses of £1,376 million).

2 This represents the curtailment credit of £843 million following the Group's decision to reduce the cap on pensionable pay (see note 3) partly offset by the cost of other changes to the pay, benefits and reward offered to employees.

2. Segmental analysis (continued)

Half-year to 31 December 2014	Net interest income	Other income, net of insurance	Total income, net of insurance	Profit (loss) before tax	External revenue	Inter-segment revenue

		claims	claims			
	£m	£m	£m	£m	£m	£m
Underlying basis						
Retail	3,586	512	4,098	1,518	4,537	(439)
Commercial Banking	1,246	972	2,218	1,050	2,015	203
Consumer Finance	645	689	1,334	476	1,426	(92)
Insurance	(67)	871	804	461	347	457
Other	547	115	662	432	791	(129)
Group	5,957	3,159	9,116	3,937	9,116	–
Reconciling items:						
Insurance grossing adjustment	(243)	300	57	–		
Asset sales, volatile items and liability management1	(3)	16	13	168		
Volatility relating to the insurance business	–	(106)	(106)	(106)		
Simplification costs	–	(22)	(22)	(447)		
TSB build and dual-running costs	–	–	–	(249)		
Payment protection insurance provision	–	–	–	(1,600)		
Other conduct provisions	–	–	–	(425)		
Amortisation of purchased intangibles	–	–	–	(165)		
Fair value unwind	(313)	(42)	(355)	(214)		
Group – statutory	5,398	3,305	8,703	899		

1 Comprises (i) gains on disposals of assets which are not part of normal business operations (£44 million); (ii) the net effect of banking volatility, changes in the fair value of the equity conversion feature of the Group's Enhanced Capital Notes and net derivative valuation adjustments (gains of £134 million); and (iii) the results of liability management exercises (losses of £10 million).

	Segment external assets		Segment customer deposits		Segment external liabilities	
	At 30 June 2015 £m	At 31 Dec 2014 £m	At 30 June 2015 £m	At 31 Dec 2014 £m	At 30 June 2015 £m	At 31 Dec 2014 £m
Retail	315,088	317,246	278,231	285,539	286,376	295,880
Commercial Banking	179,530	241,754	125,407	119,882	232,024	231,400
Consumer Finance	26,514	25,646	11,423	14,955	16,502	18,581
Insurance	150,899	150,615	–	–	144,915	144,921
Other	150,801	119,635	1,534	26,691	94,974	114,211
Total Group	822,832	854,896	416,595	447,067	774,791	804,993

3. Operating expenses

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Administrative expenses			
Staff costs:			
Salaries and social security costs	1,859	2,074	1,892
Pensions and other post-retirement benefit schemes[1]	278	(530)	304
Restructuring and other staff costs	273	513	492
	2,410	2,057	2,688
Premises and equipment	360	444	447
Other expenses:			
Communications and data processing	436	595	523
UK bank levy	–	–	237
TSB disposal (note 16)	665	–	–
Other	740	1,046	788
	1,841	1,641	1,548
	4,611	4,142	4,683
Depreciation and amortisation	1,007	950	985
Total operating expenses, excluding regulatory provisions	5,618	5,092	5,668
Regulatory provisions:			
Payment protection insurance provision (note 12)	1,400	600	1,600
Other regulatory provisions (note 12)	435	500	425
	1,835	1,100	2,025
Total operating expenses	7,453	6,192	7,693

1 On 11 March 2014 the Group announced a change to its defined benefit pension schemes, revising the existing cap on the increases in pensionable pay used in calculating the pension benefit, from 2 per cent to nil with effect from 2 April 2014. The effect of this change was to reduce the Group's retirement benefit obligations recognised on the balance sheet by £843 million with a corresponding curtailment gain recognised in the income statement in the half-year to 30 June 2014, partly offset by a charge of £21 million following changes to pension arrangements for staff within the TSB business.

4. Impairment

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Impairment losses on loans and receivables:			
Loans and advances to customers	181	639	96
Debt securities classified as loans and receivables	(2)	–	2
Impairment losses on loans and receivables	179	639	98
Impairment of available-for-sale financial assets	–	2	3
Other credit risk provisions	(18)	–	10

Total impairment charged to the income statement	161	641	111

5. Taxation

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

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Profit before tax	1,193	863	899
Tax charge thereon at UK corporation tax rate of 20.25 per cent (2014: 21.5 per cent)	(242)	(186)	(193)
Factors affecting tax charge:			
UK corporation tax rate change and related impacts	7	–	(24)
Disallowed items	(99)	(113)	(82)
Non-taxable items	46	58	95
Overseas tax rate differences	(8)	(17)	(7)
Gains exempted or covered by capital losses	47	147	34
Policyholder tax	(39)	(23)	9
Adjustments in respect of previous years	21	(19)	53
Effect of results of joint ventures and associates	–	(3)	10
Other items	(1)	(8)	6
Tax charge	(268)	(164)	(99)

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2015 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

On 8 July 2015, the Government announced that the corporation tax rate applicable from 1 April 2017 would be 19 per cent and from 1 April 2020 would be 18 per cent. In addition, the Government announced that from 1 January 2016 banking profits will be subject to an additional tax surcharge of 8 per cent. The proposed reductions in the rate of corporation tax and the introduction of the banking surcharge are expected to be enacted, and the impact accounted for, in the second half of 2015.

6. Earnings per share

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Basic			
Profit attributable to ordinary shareholders	677	574	551

Tax credit on distributions to other equity holders	40	20	42
	717	594	593
Weighted average number of ordinary shares in issue	71,349m	71,350m	71,350m
Earnings per share	1.0p	0.8p	0.8p
Fully diluted			
Profit attributable to ordinary shareholders	677	574	551
Tax credit on distributions to other equity holders	40	20	42
	717	594	593
Weighted average number of ordinary shares in issue	72,463m	72,399m	72,494m
Earnings per share	1.0p	0.8p	0.8p

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

	At 30 June 2015 £m	At 31 Dec 2014 £m
Trading assets	43,419	48,494
Other financial assets at fair value through profit or loss:		
Treasury and other bills	22	22
Debt securities	40,520	41,839
Equity shares	63,888	61,576
	104,430	103,437
Total trading and other financial assets at fair value through profit or loss	147,849	151,931

Included in the above is £95,201 million (31 December 2014: £94,314 million) of assets relating to the insurance businesses.

8. Derivative financial instruments

	30 June 2015		31 December 2014	
	Fair value of assets £m	Fair value of liabilities £m	Fair value of assets £m	Fair value of liabilities £m
Hedging				
Derivatives designated as fair value hedges	1,662	763	2,472	962
Derivatives designated as cash flow hedges	1,070	1,814	1,761	2,654
	2,732	2,577	4,233	3,616
Trading and other				

Exchange rate contracts	6,586	8,020	7,034	6,950
Interest rate contracts	16,784	15,527	22,506	20,374
Credit derivatives	254	468	279	1,066
Embedded equity conversion feature	256	–	646	–
Equity and other contracts	1,368	1,186	1,430	1,181
	25,248	25,201	31,895	29,571
Total recognised derivative assets/liabilities	27,980	27,778	36,128	33,187

The embedded equity conversion feature of £256 million (31 December 2014: £646 million) reflects the value of the equity conversion feature contained in the Enhanced Capital Notes issued by the Group in 2009; a loss of £390 million arose from the change in fair value in the half-year to 30 June 2015 (half-year to 30 June 2014: gain of £226 million; half-year to 31 December 2014: gain of £175 million) and is included within net trading income. In addition, £967 million of the embedded derivative, being that portion of the embedded equity conversion feature related to ECNs derecognised pursuant to the Group's exchange and retail tender transactions completed in April 2014, was derecognised on completion of those transactions in the half-year to 30 June 2014.

9. Loans and advances to customers

	At 30 June 2015 £m	At 31 Dec 2014 £m
Agriculture, forestry and fishing	7,092	6,586
Energy and water supply	3,690	3,853
Manufacturing	6,400	6,000
Construction	5,303	6,425
Transport, distribution and hotels	14,283	15,112
Postal and communications	3,037	2,624
Property companies	36,253	36,682
Financial, business and other services	38,729	44,979
Personal:		
Mortgages	311,031	333,318
Other	20,603	23,123
Lease financing	2,797	3,013
Hire purchase	8,559	7,403
	457,777	489,118
Allowance for impairment losses on loans and advances	(5,350)	(6,414)
Total loans and advances to customers	452,427	482,704

Loans and advances to customers include advances securitised under the Group's securitisation and covered bond programmes.

10. Debt securities in issue

30 June 2015			31 December 2014		
	At	Total		At	Total

	At fair value through profit or loss £m	amortised cost £m	£m	At fair value through profit or loss £m	amortised cost £m	£m
Medium-term notes issued	7,393	26,262	33,655	6,739	22,728	29,467
Covered bonds	–	25,500	25,500	–	27,191	27,191
Certificates of deposit	–	9,313	9,313	–	7,033	7,033
Securitisation notes	–	10,842	10,842	–	11,908	11,908
Commercial paper	–	5,859	5,859	–	7,373	7,373
	7,393	77,776	85,169	6,739	76,233	82,972

The notes issued by the Group's securitisation and covered bond programmes are held by external parties and by subsidiaries of the Group.

Securitisation programmes
At 30 June 2015, external parties held £10,842 million (31 December 2014: £11,908 million) and the Group's subsidiaries held £27,707 million (31 December 2014: £38,149 million) of total securitisation notes in issue of £38,549 million (31 December 2014: £50,057 million). The notes are secured on loans and advances to customers and debt securities classified as loans and receivables amounting to £62,853 million (31 December 2014: £75,970 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. The structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet.

10. Debt securities in issue (continued)

Covered bond programmes
At 30 June 2015, external parties held £25,500 million (31 December 2014: £27,191 million) and the Group's subsidiaries held £4,970 million (31 December 2014: £6,339 million) of total covered bonds in issue of £30,470 million (31 December 2014: £33,530 million). The bonds are secured on certain loans and advances to customers that have been assigned to bankruptcy remote limited liability partnerships. These loans are retained on the Group's balance sheet.

Cash deposits of £9,210 million (31 December 2014: £11,251 million) held by the Group are restricted in use to repayment of the debt securities issued by the structured entities, the term advances relating to covered bonds and other legal obligations.

11. Post-retirement defined benefit schemes

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

	At 30 June 2015 £m	At 31 Dec 2014 £m
Defined benefit pension schemes:		
- Fair value of scheme assets	38,041	38,133

- Present value of funded obligations	(37,399)	(37,243)
Net pension scheme asset	642	890
Other post-retirement schemes	(201)	(196)
Net retirement benefit asset	441	694
Recognised on the balance sheet as:		
Retirement benefit assets	908	1,147
Retirement benefit obligations	(467)	(453)
Net retirement benefit asset	441	694

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

	£m
At 1 January 2015	694
Income statement charge	(154)
Employer contributions	203
Remeasurement	(302)
At 30 June 2015	441

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

	At 30 June 2015 %	At 31 Dec 2014 %
Discount rate	3.80	3.67
Rate of inflation:		
Retail Prices Index	3.14	2.95
Consumer Price Index	2.14	1.95
Rate of salary increases	0.00	0.00
Weighted-average rate of increase for pensions in payment	2.69	2.59

11. Post-retirement defined benefit schemes (continued)

The application of the revised assumptions as at 30 June 2015 to the Group’s principal post-retirement defined benefit schemes has resulted in a remeasurement loss of £302 million which has been recognised in other comprehensive income, net of deferred tax of £60 million.

12. Provisions for liabilities and charges

Payment protection insurance

The Group made provisions totalling £12,025 million to 31 December 2014 against the costs of paying redress to customers in respect of past sales of PPI policies, including the related administrative expenses.

The Group has increased the provision by a further £1,400 million which brings the total amount provided to £13,425 million, of which, at 30 June 2015, £2,237 million remained unutilised (17 per cent of total provision). The remaining provision covers the Past Business Review (PBR), remediation activity and future reactive complaints

including associated administration expenses.

The main drivers of the provision are as follows:

Proactive mailing resulting from Past Business Reviews (PBR)
The Group has mailed 98 per cent of the total PBR scope, with the remaining mailings scheduled for completion in the second half of 2015. The Group is confident that the scope of proactive mailing is final, albeit monitoring continues, and there has consequently been no change to the amount provided.

Remediation
The Group continues to progress the re-review of previously handled cases. Approximately 1.2 million cases were included within the scope of remediation at 31 December 2014 covering both previously defended and previously redressed complaints for re-review. The Group has completed the review of approximately 96 per cent of all complaints previously defended, which were prioritised given their complexity and the level of potential redress required, with some residual payments expected in the second half of 2015. During the half-year, the scope was extended by 0.2 million to 1.4 million cases. The remaining scope is expected to be substantially complete by the end of the year. The change in scope, together with higher overturn rates and average redress, has resulted in an additional provision of approximately £400 million.

Volumes of reactive complaints (after excluding complaints from customers where no PPI policy was held)
At 31 December 2014, the provision assumed a total of 3.6 million complaints would be received. During the first half of 2015 complaint volumes were 8 per cent lower than over the same period of 2014 and 2 per cent lower than the second half of 2014. The run rate of complaints in the first half of 2015 was, however, marginally higher than the fourth quarter 2014 run-rate and above expectations. Complaint volumes continue to be largely driven by Claims Management Company (CMC) activity. As a result, the Group has increased the total expected complaint volumes to 3.9 million with approximately 0.7 million still to be received. Coupled with higher than expected average redress and the additional associated administration costs, this has resulted in a further provision of approximately £1,000 million.

12. Provisions for liabilities and charges (continued)

Quarter	Average monthly reactive complaint volume	Quarter on quarter %
Q1 2013	61,259	(28%)
Q2 2013	54,086	(12%)
Q3 2013	49,555	(8%)
Q4 2013	37,457	(24%)
Q1 2014	42,259	13%
Q2 2014	39,426	(7%)
Q3 2014	40,624	3%
Q4 2014	35,910	(12%)
Q1 2015	37,791	5%
Q2 2015	36,957	(2%)

During the second quarter of 2015 the Group has seen a fall of approximately 2 per cent in complaint levels. However, the provision remains sensitive to future trends.

Average redress
Average redress has trended higher than expected by approximately £200 per policy due to a change in the product and age mix of complaints.

Expenses

The Group expects to maintain the PPI operation on its current scale for longer than previously anticipated given the update to volume related assumptions and the re-review of previously handled cases continuing into the second half of 2015. The estimate for administrative expenses, which comprise complaint handling costs and costs arising from cases subsequently referred to the FOS, is included in the provision increase outlined above.

Sensitivities

The Group estimates that it has sold approximately 16 million policies since 2000. These include policies that were not mis-sold as they were suitable for, and appropriately disclosed to, the customer. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for in excess of 45 per cent of the policies sold since 2000, covering both customer-initiated complaints and actual and expected proactive mailings undertaken by the Group.

The cash payments in the first half of 2015 were approximately £1.7 billion covering PBR, remediation and reactive complaints and associated administration costs. The PBR and remediation programmes are expected to be substantially complete by the end of this year, slightly later than envisaged. The monthly run-rate spend of these programmes is expected to reduce significantly from the current level of around £140 million to around £30 million by the end of the year with an associated reduction in operating costs.

The total amount provided for PPI represents the Group's best estimate of the likely future costs. A number of risks and uncertainties remain, in particular with respect to future complaint volumes, which are primarily driven by the level of CMC initiated complaints. The current provision assumes a significant decrease in reactive complaint volumes over the next 18 months compared with recent quarterly trends. If this decline is delayed by six months and reactive complaints remain at the same level as the first half of 2015, this would lead to an additional provision of approximately £1.0 billion at the end of the year; a similar level of provisioning would be required for each six months of flat complaint volumes in 2016.

12. Provisions for liabilities and charges (continued)

Key metrics and sensitivities are highlighted in the table below:

Sensitivities1	To date unless noted	Future	Sensitivity
Reactive complaints since origination (m)2	3.2	0.7	0.1 = £240m
Proactive mailing:			
– number of policies (m)3	2.7	0.1	n/a
– response rate4	34%	30%	1% = £3m
Average uphold rate per policy5	78%	75%	1% = £12m
Average redress per upheld policy6	£1,935	£2,000	£100 = £90m
Remediation cases (m) 7	0.7	0.7	1 case = £400
Administrative expenses (£m)	2,420	400	1 case = £500

1 All sensitivities exclude claims where no PPI policy was held.
2 Sensitivity includes complaint handling costs, and have increased as a result of higher average redress and a shift towards older policies.
3 To date volume includes customer initiated complaints.
4

Metric relates to mature mailings only. Future response rates are expected to be lower than experienced to date as mailings to higher risk customers have been prioritised.

5 The percentage of complaints where the Group finds in favour of the customer. This is a blend of proactive and customer initiated complaints. The 78 per cent uphold rate is based on six months to June 2015. The lower uphold rate in the future reflects a lower proportion of PBR related cases which typically have a higher uphold rate, reflecting the higher risk nature of those policy sales.

6 The amount that is paid in redress in relation to a policy found to have been mis-sold, comprising, where applicable, the refund of premium, compound interest charged and interest at 8 per cent per annum. Actuals are based on the six months to June 2015. The increase in future average redress is influenced by a shift in the reactive complaint mix towards older, and therefore more expensive, policies.

7 Remediation to date is based on cases reviewed as at 30 June 2015, but not necessarily settled. The sensitivity is based on the expected future average cost of a remediation case. It is an average of full payments, top-up payments and nil payouts where the original decision is retained. It is lower than experienced to date as future remediation largely comprises top-up payments on previously redressed cases.

Other regulatory provisions

Litigation in relation to insurance branch business in Germany

Clerical Medical Investment Group Limited (CMIG) has received a number of claims in the German courts relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. Following decisions in July 2012 from the Federal Court of Justice in Germany the Group recognised provisions totalling £520 million during the period to 31 December 2014. Recent experience has been broadly in line with expectations and, accordingly, no further provision has been recognised in the half-year to 30 June 2015. The remaining unutilised provision as at 30 June 2015 is £137 million.

The validity of the claims facing CMIG depends upon the facts and circumstances in respect of each claim. As a result the ultimate financial effect, which could be significantly different from the current provision, will only be known once all relevant claims have been resolved.

Interest rate hedging products

In June 2012, a number of banks, including the Group, reached agreement with the FSA (now FCA) to carry out a review of sales made since 1 December 2001 of interest rate hedging products (IRHP) to certain small and medium-sized businesses. As at 30 June 2015 the Group had identified 1,723 sales of IRHPs to customers within scope of the agreement with the FCA which have opted in and are being reviewed and, where appropriate, redressed. The Group agreed that it would provide redress to any in-scope customers where appropriate. The Group continues to review the remaining cases within the scope of the agreement with the FCA and has met all of the regulator's requirements to date.

At 30 June 2015, the total amount provided for redress and related administration costs for in-scope customers was £680 million (31 December 2014: £680 million). As at 30 June 2015, the Group has utilised £617 million (31 December 2014: £571 million), with £63 million (31 December 2014: £109 million) of the provision remaining.

12. Provisions for liabilities and charges (continued)

FCA review of complaint handling

On 5 June 2015 the FCA announced a settlement with the Group totalling £117 million following its investigation into aspects of the Group's PPI complaint handling process during the period March 2012 to May 2013. The FCA did not find that the Group acted deliberately. The Group has reviewed all customer complaints fully defended during the

Relevant Period. The remediation costs of reviewing these affected cases are not materially in excess of existing provisions.

Other legal actions and regulatory matters

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Group also receives complaints and claims from customers in connection with its past conduct and, where significant, provisions are held against the costs expected to be incurred as a result of the conclusions reached. During the half-year to 30 June 2015, the Group charged an additional £318 million (half-year to 30 June 2014: £225 million) in respect of a number of matters affecting the Retail, Commercial Banking and Consumer Finance divisions. This includes a provision of £175 million for customer redress and associated administration costs in response to complaints concerning Packaged Bank Accounts. At 30 June 2015, provisions for other legal actions and regulatory matters of £732 million remained unutilised.

13. Contingent liabilities and commitments

Interchange fees

With respect to interchange fees, the Group is following closely the course of investigations, litigation and recent regulation (as described below) which involve card schemes such as Visa and MasterCard. The Group is not directly involved in these matters but is a member of certain card schemes, in particular, Visa and MasterCard. The matters referred to above include the following:

- A new European Regulation to regulate cross-border and domestic fallback multilateral interchange fees (MIFs) in the EU. This regulation came into force on 8 June 2015 and it will introduce interchange fee caps for credit card MIFs (to 30 bps) and debit card MIFs (to 20bps). The interchange fee caps come in to force on 9 December 2015;
- The European Commission also continues to pursue other competition investigations into MasterCard and Visa probing, amongst other things, interchange paid in respect of cards issued outside the EEA;
- Litigation continues in the English High Court against both Visa and MasterCard. This litigation has been brought by several retailers who are seeking damages for allegedly ‘overpaid’ MIFs;
- The new UK payments regulator may exercise its powers to regulate domestic interchange fees. In addition, the FCA has undertaken a market study in relation to the UK credit cards market.

The ultimate impact on the Group of the above investigations, regulatory or legislative developments and the litigation against VISA and MasterCard can only be known at the conclusion of these matters.

LIBOR and other trading rates

In July 2014, the Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Group companies’ submissions to the British Bankers’ Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate. The Group continues to cooperate with various other government and regulatory authorities, including the Serious Fraud Office, the Swiss Competition Commission, and a number of US State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates.

13. Contingent liabilities and commitments (continued)

Certain Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US Dollar, Japanese Yen and Sterling LIBOR. The lawsuits, which contain broadly similar allegations, allege violations of the Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act (RICO) and

the Commodity Exchange Act (CEA), as well as various state statutes and common law doctrines. Certain of the plaintiffs' claims, including those asserted under US anti-trust laws, have been dismissed by the US Federal Court for Southern District of New York (the District Court). That court's dismissal of plaintiffs' anti-trust claims has been appealed to the New York Federal Court of Appeal.

Certain Group Companies are also named as defendants in UK based claims raising LIBOR manipulation allegations in connection with interest rate hedging products.

The Group also reviewed its activities in relation to the setting of certain foreign exchange daily benchmark rates and related matters. The Group has been co-operating with the FCA and other regulators and has been providing information about the Group's review to those regulators. In addition, the Group, together with a number of other banks, was named as a defendant in several actions filed in the District Court between late 2013 and February 2014, in which the plaintiffs alleged that the defendants manipulated WM/Reuters foreign exchange rates in violation of US antitrust laws. On 31 March 2014, plaintiffs effectively withdrew their claims against the Group (but not against all defendants) by filing a superseding consolidated and amended pleading against a number of other defendants without naming any Group entity as a defendant.

It is currently not possible to predict the scope and ultimate outcome on the Group of the various outstanding regulatory investigations not encompassed by the settlements, any private lawsuits or any related challenges to the interpretation or validity of any of the Group's contractual arrangements, including their timing and scale.

UK shareholder litigation

In August 2014, the Group and a number of former directors were named as defendants in a claim filed in the English High Court by a number of claimants who held shares in Lloyds TSB Group plc (LTSB) prior to the acquisition of HBOS plc, alleging breaches of fiduciary and tortious duties in relation to information provided to shareholders in connection with the acquisition and the recapitalisation of LTSB. The claim is at an early stage and so it is currently not possible to determine the ultimate impact on the Group (if any), but it intends to defend the claim vigorously.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK's independent statutory compensation fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable or likely to be unable to pay claims against it. The FSCS is funded by levies on the authorised financial services industry. Each deposit-taking institution contributes towards the FSCS levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March.

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. At 31 March 2015, the principal balance outstanding on these loans was £15,797 million (31 March 2014: £16,591 million). Although the substantial majority of this loan will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS. The amount of future levies payable by the Group depends on a number of factors including the amounts recovered by the FSCS from asset sales, the Group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of deposit-taking participants.

PRA/FCA report on HBOS

On 12 September 2012 the FSA announced that it was starting work on a public interest report on HBOS. That report is now being produced as a joint PRA/FCA report but has not yet been published.

13. Contingent liabilities and commitments (continued)

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

Residential mortgage repossessions
In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases, concerning certain aspects of the Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The Group is reviewing the issues raised by the judgment and will respond as appropriate to any investigations or proceedings that may in due course be instigated as a result of these issues.

Plevin v Paragon Personal Finance Limited
On 27 May 2015 the FCA gave an update on its announcement from January 2015 that it would be collecting evidence on current trends in PPI complaints to assess whether the current approach to PPI complaint handling is continuing to meet its objectives. The FCA stated that it expects to give its view in the summer. In that announcement the FCA also noted that in November 2014 the Supreme Court had ruled in Plevin v Paragon Personal Finance Limited [2014] UKSC 6 (Plevin) that the lender's failure to disclose a large commission payment on a single premium PPI policy made the relationship between that lender and the borrower unfair under section 140A of the Consumer Credit Act 1974. The FCA is considering whether additional rules and/or guidance are required to deal with the potential impact of the Plevin decision on complaints about PPI and indicated that it expects to announce its views on this aspect, including next steps, in its announcement in the summer. The Financial Ombudsman Service are also considering the implications for PPI complaints. Given the current uncertainty, it is not presently possible to estimate the financial impact of the Plevin decision and accordingly no additional provision has been established at this stage, but it is possible that the impact could be material.

Other legal actions and regulatory matters
In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of employees, customers, investors or other third parties, as well as regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

13. Contingent liabilities and commitments (continued)

Contingent liabilities and commitments arising from the banking business

	At 30 June 2015	At 31 Dec 2014

	£m	£m
Contingent liabilities		
Acceptances and endorsements	130	59
Other:		
Other items serving as direct credit substitutes	405	330
Performance bonds and other transaction-related contingencies	2,034	2,293
	2,439	2,623
Total contingent liabilities	2,569	2,682
Commitments		
Documentary credits and other short-term trade-related transactions	42	101
Forward asset purchases and forward deposits placed	428	162
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	10,463	8,809
Other commitments	59,901	64,015
	70,364	72,824
1 year or over original maturity	35,679	34,455
Total commitments	106,513	107,542

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £55,027 million (31 December 2014: £55,029 million) was irrevocable.

14. Fair values of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine those fair values. Note 51 to the Group's 2014 financial statements describes the definitions of the three levels in the fair value hierarchy.

Valuation control framework

Key elements of the valuation control framework, which covers processes for all levels in the fair value hierarchy including level 3 portfolios, include model validation (incorporating pre-trade and post-trade testing), product implementation review and independent price verification. Formal committees meet quarterly to discuss and approve valuations in more judgemental areas.

Transfers into and out of level 3 portfolios

Transfers out of level 3 portfolios arise when inputs that could have a significant impact on the instrument's valuation become market observable; conversely, transfers into the portfolios arise when consistent sources of data cease to be available.

Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to what was disclosed in the Group's 2014 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied to such portfolios.

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

The table below summarises the carrying values of financial assets and liabilities presented on the Group's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	30 June 2015		31 December 2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Trading and other financial assets at fair value through profit or loss	147,849	147,849	151,931	151,931
Derivative financial instruments	27,980	27,980	36,128	36,128
Loans and receivables:				
Loans and advances to banks	23,548	23,892	26,155	26,031
Loans and advances to customers	452,427	450,322	482,704	480,631
Debt securities	1,569	1,491	1,213	1,100
Available-for-sale financial instruments	32,173	32,173	56,493	56,493
Held-to-maturity investments	19,960	19,785	–	–
Financial liabilities				
Deposits from banks	16,966	16,978	10,887	10,902
Customer deposits	416,595	416,933	447,067	450,038
Trading and other financial liabilities at fair value through profit or loss	63,328	63,328	62,102	62,102
Derivative financial instruments	27,778	27,778	33,187	33,187
Debt securities in issue	77,776	80,400	76,233	80,244
Liabilities arising from non-participating investment contracts	26,131	26,131	27,248	27,248
Financial guarantees	44	44	51	51
Subordinated liabilities	22,639	26,751	26,042	30,175

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

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

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

The following tables provide an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group's consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

	Financial assets			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2015				

Trading and other financial assets at fair value through profit or loss:				
Loans and advances to customers	–	26,601	–	26,601
Loans and advances to banks	–	6,564	–	6,564
Debt securities	24,155	22,949	3,670	50,774
Equity shares	62,071	337	1,480	63,888
Treasury and other bills	22	–	–	22
Total trading and other financial assets at fair value through profit or loss	86,248	56,451	5,150	147,849
Available-for-sale financial assets:				
Debt securities	24,896	5,366	–	30,262
Equity shares	47	709	303	1,059
Treasury and other bills	852	–	–	852
Total available-for-sale financial assets	25,795	6,075	303	32,173
Derivative financial instruments	51	25,696	2,233	27,980
Total financial assets carried at fair value	112,094	88,222	7,686	208,002
At 31 December 2014				
Trading and other financial assets at fair value through profit or loss:				
Loans and advances to customers	–	28,513	–	28,513
Loans and advances to banks	–	8,212	–	8,212
Debt securities	24,230	24,484	3,457	52,171
Equity shares	59,607	322	1,647	61,576
Treasury and other bills	1,459	–	–	1,459
Total trading and other financial assets at fair value through profit or loss	85,296	61,531	5,104	151,931
Available-for-sale financial assets:				
Debt securities	47,437	7,151	–	54,588
Equity shares	45	727	270	1,042
Treasury and other bills	852	11	–	863
Total available-for-sale financial assets	48,334	7,889	270	56,493
Derivative financial instruments	94	33,263	2,771	36,128
Total financial assets carried at fair value	133,724	102,683	8,145	244,552

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

Financial liabilities

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2015				
Trading and other financial liabilities at fair value through profit or loss:				
	–	7,393	1	7,394

Liabilities held at fair value through profit or loss				
Trading liabilities	3,592	52,342	–	55,934
Total trading and other financial liabilities at fair value through profit or loss	3,592	59,735	1	63,328
Derivative financial instruments	108	26,337	1,333	27,778
Financial guarantees	–	–	44	44
Total financial liabilities carried at fair value	3,700	86,072	1,378	91,150
At 31 December 2014				
Trading and other financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	–	6,739	5	6,744
Trading liabilities	2,700	52,658	–	55,358
Total trading and other financial liabilities at fair value through profit or loss	2,700	59,397	5	62,102
Derivative financial instruments	68	31,663	1,456	33,187
Financial guarantees	–	–	51	51
Total financial liabilities carried at fair value	2,768	91,060	1,512	95,340

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

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

	Trading and other financial assets at fair value through profit or loss £m	Available-for-sale financial assets £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2015	5,104	270	2,771	8,145
Exchange and other adjustments	(1)	–	(44)	(45)
Losses recognised in the income statement within other income	(61)	–	(534)	(595)
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	1	–	1
Purchases	785	38	182	1,005
Sales	(649)	(6)	(105)	(760)
Transfers into the level 3 portfolio	20	–	–	20

Transfers out of the level 3 portfolio	(48)	–	(37)	(85)
At 30 June 2015	5,150	303	2,233	7,686
Losses recognised in the income statement within other income relating to those assets held at 30 June 2015	(39)	–	(533)	(572)

	Trading and other financial assets at fair value through profit or loss £m	Available-for-sale financial assets £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2014	4,232	449	3,019	7,700
Exchange and other adjustments	–	(9)	(10)	(19)
Gains recognised in the income statement within other income	167	(78)	277	366
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	15	–	15
Purchases	432	199	10	641
Sales	(367)	(173)	(1,072)	(1,612)
Transfers into the level 3 portfolio	441	–	22	463
Transfers out of the level 3 portfolio	–	(74)	(53)	(127)
At 30 June 2014	4,905	329	2,193	7,427
Gains recognised in the income statement within other income relating to those assets held at 30 June 2014	140	–	50	190

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

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

	Trading and other financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Financial guarantees £m	Total financial liabilities carried at fair value £m
At 1 January 2015	5	1,456	51	1,512
Exchange and other adjustments	–	(33)	–	(33)
(Gains) losses recognised in the income statement within other income	–	(100)	(7)	(107)
Additions	–	124	–	124

Redemptions	(4)	(102)	–	(106)
Transfers into the level 3 portfolio	–		–	–
Transfers out of the level 3 portfolio	–	(12)	–	(12)
At 30 June 2015	1	1,333	44	1,378
Gains recognised in the income statement within other income relating to those liabilities held at 30 June 2015	–	(100)	(7)	(107)

	Trading and other financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Financial guarantees £m	Total financial liabilities carried at fair value £m
At 1 January 2014	39	986	50	1,075
Exchange and other adjustments	–	(5)	–	(5)
(Gains) losses recognised in the income statement within other income	(2)	78	(2)	74
Additions	–	5	–	5
Redemptions	(25)	(53)	–	(78)
Transfers into the level 3 portfolio	–	5	–	5
At 30 June 2014	12	1,016	48	1,076
Gains (losses) recognised in the income statement within other income relating to those liabilities held at 30 June 2014	–	(78)	–	(78)

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

The tables below set out the effects of reasonably possible alternative assumptions for categories of level 3 financial assets and financial liabilities which have an aggregated carrying value greater than £500 million.

				At 30 June 2015		
					Effect of reasonably possible alternative assumptions1	
	Valuation technique(s)	Significant unobservable inputs	Range2	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss:						
Equity and venture capital investments	Market approach	Earnings multiple	4/16	2,179	75	(75)
Unlisted equities and debt securities, property partnerships in	Underlying asset/net asset value (incl. property prices)3	n/a		2,615	–	(6)

the life funds						
Other				356		
				5,150		
Available for sale financial assets				303		
Derivative financial assets:						
Embedded equity conversion feature	Lead manager or broker quote	Equity conversion feature spread	183/406	256	15	(15)
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	6/177	1,409	12	(13)
	Option pricing model	Interest rate volatility	0%/76%	568	4	(4)
				2,233		
Financial assets carried at fair value				7,686		
Trading and other financial liabilities at fair value through profit or loss				1		
Derivative financial liabilities:						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	6/177	846		
	Option pricing model	Interest rate volatility	0%/76%	487		
				1,333		
Financial guarantees				44		
Financial liabilities carried at fair value				1,378		

1 Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.
2 The range represents the highest and lowest inputs used in the level 3 valuations.
3 Underlying asset/net asset values represent fair value.

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

				At 31 December 2014		
					Effect of reasonably possible alternative assumptions1	
	Valuation technique(s)	Significant unobservable inputs	Range2	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss:						
Equity and venture capital investments	Market approach	Earnings multiple	4/14	2,214	75	(75)

Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/net asset value (incl. property prices)3	n/a	n/a	2,617	4	(2)
Other				273		
				5,104		
Available for sale financial assets				270		
Derivative financial assets:						
Embedded equity conversion feature	Lead manager or broker quote	Equity conversion feature spread	175/432	646	21	(21)
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	3/167	1,382	17	(16)
	Option pricing model	Interest rate volatility	4%/120%	743	6	(6)
				2,771		
Financial assets carried at fair value				8,145		
Trading and other financial liabilities at fair value through profit or loss				5		
Derivative financial liabilities:						
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (bps)	3/167	807		
	Option pricing model	Interest rate volatility	4%/120%	649		
				1,456		
Financial guarantees				51		
Financial liabilities carried at fair value				1,512		

1 Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.
2 The range represents the highest and lowest inputs used in the level 3 valuations.
3 Underlying asset/net asset values represent fair value.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are unchanged from those described in the Group's 2014 financial statements.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and are unchanged from those described in the Group's 2014 financial statements.

15. Related party transactions

UK government
In January 2009, the UK government through HM Treasury became a related party of the Company following its subscription for ordinary shares issued under a placing and open offer. As at 30 June 2015, HM Treasury held an interest of 16.87 per cent in the Company's ordinary share capital, with its interest having fallen below 20 per cent on 11 May 2015. As a consequence of HM Treasury no longer being considered to have a significant influence, it ceased to be a related party of the Company for IAS 24 purposes at that date.

In accordance with IAS 24, UK government-controlled entities were related parties of the Group; the Group regarded the Bank of England and entities controlled by the UK government, including The Royal Bank of Scotland Group plc (RBS), NRAM plc and Bradford & Bingley plc, as related parties.

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

National Loan Guarantee Scheme
The Group has participated in the UK government's National Loan Guarantee Scheme, which was launched on 20 March 2012. Through the scheme, the Group is providing eligible UK businesses with discounted funding, subject to continuation of the scheme and its financial benefits, and based on the Group's existing lending criteria. Eligible businesses who have taken up the funding benefit from a 1 per cent discount on their funding rate for a pre-agreed period of time.

Funding for Lending
In August 2012, the Group announced its support for the UK Government's Funding for Lending Scheme and confirmed its intention to participate in the scheme. The Funding for Lending Scheme represents a further source of cost effective secured term funding available to the Group. The original initiative supported a broad range of UK based customers, providing householders with more affordable housing finance and businesses with cheaper finance to invest and grow. In November 2013, the Group entered into extension letters with the Bank of England to take part in an extension of the Funding for Lending Scheme until the end of January 2015. This extension of the Funding for Lending Scheme focused on providing businesses with cheaper finance to invest and grow. In December 2014, the Bank of England announced a further extension to the Funding for Lending Scheme running to the end of January 2016 with an increased focus on supporting small businesses. At 30 June 2015, the Group had drawn down £24 billion (31 December 2014: £20 billion) under the Funding for Lending Scheme, of which £14 billion had been drawn down under the extension to the scheme announced in 2013.

Enterprise Finance Guarantee
The Group participates in the Enterprise Finance Guarantee Scheme which was launched in January 2009 as a replacement for the Small Firms Loan Guarantee Scheme. The scheme is a UK government-backed loan guarantee, which supports viable businesses with access to lending where they would otherwise be refused a loan due to a lack of lending security. The Department for Business, Innovation and Skills (formerly the Department for Business, Enterprise and Regulatory Reform) provides the lender with a guarantee of up to 75 per cent of the capital of each loan subject to the eligibility of the customer within the rules of the scheme. As at 30 June 2015, the Group had offered 6,378 loans to customers, worth over £539 million. Under the most recent renewal of the terms of the scheme, Lloyds Bank plc and Bank of Scotland plc, on behalf of the Group, contracted with The Secretary of State for Business, Innovation and Skills.

15. Related party transactions (continued)

Help to Buy
On 7 October 2013, Bank of Scotland plc entered into an agreement with The Commissioners of Her Majesty's Treasury by which it agreed that the Halifax Division of Bank of Scotland plc would participate in the Help to Buy Scheme with effect from 11 October 2013 and that Lloyds Bank plc would participate from 3 January 2014. The Help to Buy Scheme is a scheme promoted by the UK government and is aimed to encourage participating lenders to make mortgage loans available to customers who require higher loan-to-value mortgages. Halifax and Lloyds are currently participating in the Scheme whereby customers borrow between 90 per cent and 95 per cent of the purchase price. In return for the payment of a commercial fee, HM Treasury has agreed to provide a guarantee to the lender to cover a proportion of any loss made by the lender arising from a higher loan-to-value loan being made. £2,484 million of outstanding loans at 30 June 2015 (31 December 2014: £1,950 million) had been advanced under this scheme.

Business Growth Fund
The Group has invested £151 million (31 December 2014: £118 million) in the Business Growth Fund (under which an agreement was entered into with RBS amongst others) and, as at 30 June 2015, carries the investment at a fair value of £142 million (31 December 2014: £105 million).

Big Society Capital
The Group has invested £33 million in the Big Society Capital Fund under which an agreement was entered into with RBS amongst others.

Housing Growth Partnership
The Group has committed to invest up to £50 million into the Housing Growth Partnership under which an agreement was entered into with the Homes and Communities Agency.

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

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

Other related party transactions
Other related party transactions for the half-year to 30 June 2015 are similar in nature to those for the year ended 31 December 2014.

16. Disposal of interest in TSB Banking Group plc

On 20 March 2015 the Group announced that it had agreed to sell a 9.99 per cent interest in TSB Banking Group plc (TSB) to Banco de Sabadell S.A. (Banco Sabadell) and that it had entered into an irrevocable undertaking to accept Banco Sabadell's recommended cash offer in respect of its remaining 40.01 per cent interest in TSB. The offer by Banco Sabadell was conditional upon, amongst other things, regulatory approval.

The sale of the 9.99 per cent interest completed on 24 March 2015, reducing the Group's holding in TSB to 40.01 per cent; this sale led to a loss of control and the deconsolidation of TSB. The Group's residual investment in 40.01 per cent of TSB was then recorded at fair value, as an asset held for sale. The Group recognised a loss of £660 million reflecting the net costs of the Transitional Service Agreement between Lloyds and TSB, the contribution to be provided by Lloyds to TSB in moving to alternative IT provision and the net result on sale of the 9.99 per cent interest

and fair valuation of the residual investment.

16. Disposal of interest in TSB Banking Group plc (continued)

The Group announced on 30 June 2015 that all relevant regulatory clearances had been received and that the sale was therefore unconditional in all respects, so that at 30 June 2015 the Group was carrying a receivable from Banco Sabadell in respect of the final proceeds of sale. The proceeds were received on 10 July 2015.

17. Ordinary dividends

An interim dividend for 2015 of 0.75 pence per ordinary share (half-year to 30 June 2014: nil) will be paid on 28 September 2015. The total amount of this dividend is £535 million.

Shareholders who have already joined the dividend reinvestment plan will automatically receive shares instead of the cash dividend. Key dates for the payment of the dividend are:

Shares quoted ex-dividend	13 August 2015
Record date	14 August 2015
Final date for joining or leaving the dividend reinvestment plan	28 August 2015
Interim dividend paid	28 September 2015

On 19 May 2015, a dividend in respect of 2014 of 0.75 pence per ordinary share was paid to shareholders. This dividend totalled £535 million.

18. Events since the balance sheet date

On 30 July 2015, the Group announced that it had agreed the sale of a portfolio of Irish commercial loans, with a book value of £724 million, for a cash consideration of approximately £827 million; after transaction and other costs the gain on disposal is not expected to be significant. The transaction is expected to complete in the fourth quarter of 2015.

19. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2015 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Group.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the Group.

IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change is likely to result in an increase in the Group's balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the Group's lending portfolios and forecast economic conditions at the date of implementation. In February 2015, the Basel Committee on Banking Supervision published a consultative document outlining supervisory expectations regarding sound credit risk practices associated with implementing and applying an expected credit loss accounting framework. A final version is expected to be issued at the end of 2015.

19. Future accounting developments (continued)

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the Group.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. As at 30 July 2015, this pronouncement is awaiting EU endorsement.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Group.

IFRS 15 is effective for annual periods beginning on or after 1 January 2017, although in May 2015, the IASB issued an exposure draft proposing to defer the effective date to 1 January 2018. In addition, on 30 July 2015 another exposure draft was issued proposing targeted amendments to the standard. As at 30 July 2015, this standard is awaiting EU endorsement.

20. Other information

The financial information included in these condensed consolidated half-year financial statements does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- an indication of important events that have occurred during the six months ended 30 June 2015 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

  - material related party transactions in the six months ended 30 June 2015 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by

António Horta-Osório
Group Chief Executive
30 July 2015

Lloyds Banking Group plc board of directors:

Executive directors:
António Horta-Osório (Group Chief Executive)
George Culmer (Chief Financial Officer)
Juan Colombás (Chief Risk Officer)

Non-executive directors:
Lord Blackwell (Chairman)
Anita Frew (Deputy Chairman)
Alan Dickinson
Carolyn Fairbairn
Simon Henry
Dyfrig John CBE
Nicholas Luff
Nicholas Prettejohn
Anthony Watson CBE
Sara Weller CBE

INDEPENDENT REVIEW REPORT TO LLOYDS BANKING GROUP PLC

Report on the condensed consolidated half-year financial statements

Our conclusion

We have reviewed the condensed consolidated half-year financial statements, defined below, in the 2015 half-year results of Lloyds Banking Group plc for the six months ended 30 June 2015. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-year financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

What we have reviewed

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

- the consolidated income statement for the six months ended 30 June 2015;
- the consolidated statement of comprehensive income for the six months ended 30 June 2015;
- the consolidated balance sheet as at 30 June 2015;
- the consolidated statement of changes in equity for the six months ended 30 June 2015;
- the consolidated cash flow statement for the six months ended 30 June 2015; and
- the explanatory notes to the condensed consolidated half-year financial statements.

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

The condensed consolidated half-year financial statements included in the 2015 half-year results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

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

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

We have read the other information contained in the 2015 half-year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated half-year financial statements.

INDEPENDENT REVIEW REPORT TO LLOYDS BANKING GROUP PLC (continued)

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

Our responsibilities and those of the directors

The 2015 half-year results, including the condensed consolidated half-year financial statements, are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the 2015 half-year results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated half-year financial statements in the 2015 half-year results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
30 July 2015
London

Notes:

(a) The maintenance and integrity of the Lloyds Banking Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN
The full news release can also be found on the Group's website – www.lloydsbankinggroup.com

Registered office: Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ
Registered in Scotland no. 95000

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LLOYDS BANKING GROUP plc

(Registrant)

By: Douglas Radcliffe

Name: Douglas Radcliffe
Title: Interim Investor Relations Director

Date: 31 July 2015