AMERICAN SCIENCE & ENGINEERING, INC.
Form SC 13G/A
February 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 5)

AMERICAN SCIENCE ENGINEERING

(Name of Issuer)

COMMON STOCK

(Title of Class of Securities)

029429107

(CUSIP Number)

December 31, 2015

(Date of Event which Requires Filing of Statement)

Check the appropriate box to designate the Rule pursuant to which this Schedule is filed:

[x] Rule 13d - 1(b)

Rule 13d - 1(c)

Rule 13d - 1(d)

1 Name of Reporting Person

T. ROWE PRICE ASSOCIATES, INC.

52-0556948

2 Check the Appropriate Box if a Member of a Group

NOT APPLICABLE

3 SEC Use Only

4 Citizenship or Place of Organization

MARYLAND

Number of Shares Beneficially Owned by Each Reporting Person With

5 Sole Voting Power*I15,490

6 Shared Voting Power* -0-

7 Sole Dispositive Power* 876,153

8 Shared Dispositive Power -0-

9 Aggregate Amount Beneficially Owned by Each Reporting Person

876,153

10 Check Box if the Aggregate Amount in Row (9) Excludes Certain Shares

NOT APPLICABLE

11 Percent of Class Represented by Amount in Row 9

12.2%

12 Type of Reporting Person

IA

*Any shares reported in Items 5 and 6 are also reported in Item 7.

1 Name of Reporting Person

T. ROWE PRICE SMALL-CAP STOCK FUND, INC.

23-1622210

2 Check the Appropriate Box if a Member of a Group

NOT APPLICABLE

3 SEC Use Only

4 Citizenship or Place of Organization

Maryland

Number of Shares Beneficially Owned by Each Reporting Person With

5 Sole Voting Power* 411,300

6 Shared Voting Power* -0-

7 Sole Dispositive Power* -0-

8 Shared Dispositive Power -0-

9 Aggregate Amount Beneficially Owned by Each Reporting Person

411,300

10 Check Box if the Aggregate Amount in Row (9) Excludes Certain Shares

NOT APPLICABLE

11 Percent of Class Represented by Amount in Row 9

5.7%

12 Type of Reporting Person

IV

*The aggregate amount reported on this page is also included in the aggregate amount reported by T. Rowe Price Associates, Inc. on this Schedule 13G.

Item 1(a) Name of Issuer:

Reference is made to page 1 of this Schedule 13G

Item 1(b) Address of Issuer's Principal Executive Offices:

829 Middlesex Turnpike, Billerica, Massachusetts 01821

Item 2(a) Name of Person(s) Filing:

(1) T. Rowe Price Associates, Inc. ("Price Associates")

(2) T. Rowe Price Small-Cap Stock Fund, Inc.

X Attached as Exhibit A is a copy of an agreement between the Persons Filing (as specified hereinabove) that this Schedule 13G is being filed on behalf of each of them.

Item 2(b) Address of Principal Business Office:

100 E. Pratt Street, Baltimore, Maryland 21202

Item 2(c) Citizenship or Place of Organization:

(1) Maryland

(2) Maryland

Item 2(d) Title of Class of Securities:

Reference is made to page 1 of this Schedule 13G

Item 2(e) CUSIP Number: 029429107

Item 3 The person filing this Schedule 13G is an:

X Investment Adviser registered under Section 203 of the Investment Advisers Act of 1940

X Investment Company registered under Section 8 of the Investment Company Act of 1940

Item 4 Reference is made to Items 5-11 on the preceding pages of this Schedule 13G.

Item 5 Ownership of Five Percent or Less of a Class.

X Not Applicable.

This statement is being filed to report the fact that, as of the date of this report, the reporting person(s) has (have) ceased to be the beneficial owner of more than five percent of the class of securities.

Item 6 Ownership of More than Five Percent on Behalf of Another Person

(1) Price Associates does not serve as custodian of the assets of any of its clients; accordingly, in each instance only the client or the client's custodian or trustee bank has the right to receive dividends paid with respect to, and proceeds from the sale of, such securities.

The ultimate power to direct the receipt of dividends paid with respect to, and the proceeds from the sale of, such securities, is vested in the individual and institutional clients which Price Associates serves as investment adviser. Any and all discretionary authority which has been delegated to Price Associates may be revoked in whole or in part at any time

Except as may be indicated if this is a joint filing with one of the registered investment companies sponsored by Price Associates which it also serves as investment adviser ("T. Rowe Price Funds"), not more than 5% of the class of such securities is owned by any one client subject to the investment advice of Price Associates.

(2) With respect to securities owned by any one of the T. Rowe Price Funds, only the custodian for each of such Funds, has the right to receive dividends paid with respect to, and proceeds from the sale of, such securities. No other person is known to have such right, except that the shareholders of each such Fund participate proportionately in any dividends and distributions so paid.

Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.

Not Applicable.

Item 8 Identification and Classification of Members of the Group.

Not Applicable.

Item 9 Notice of Dissolution of Group.

Not Applicable.

Item 10 Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect. T. Rowe Price Associates, Inc. hereby declares and affirms that the filing of Schedule 13G shall not be construed as an admission that Price Associates is the beneficial owner of the securities referred to, which beneficial ownership is expressly denied.

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

T. ROWE PRICE ASSOCIATES, INC.

Date: February 16, 2016

Signature: /s/ David Oestreicher

Name & Title: David Oestreicher, Vice President

T. ROWE PRICE SMALL-CAP STOCK

FUND, INC.

Date: February 16, 2016

Signature: /s/ David Oestreicher

Name & Title: David Oestreicher, Vice President

12/31/2015

EXHIBIT A

AGREEMENT

JOINT FILING OF SCHEDULE 13G

Price Associates, Inc. (an investment adviser registered under the Investment Advisers Act of 1940), and T. Rowe Price Small-Cap Stock Fund, Inc., all of which are Maryland corporations, hereby agree to file jointly the statement on Schedule 13G to which this Agreement is attached, and any amendments thereto which may be deemed necessary, pursuant to Regulation 13D-G under the Securities Exchange Act of 1934.

It is understood and agreed that each of the parties hereto is responsible for the timely filing of such statement and any amendments thereto, and for the completeness and accuracy of the information concerning such party contained therein, but such party is not responsible for the completeness or accuracy of information concerning the other party unless such party knows or has reason to believe that such information is inaccurate.

It is understood and agreed that a copy of this Agreement shall be attached as an exhibit to the statement on Schedule 13G, and any amendments hereto, filed on behalf of each of the parties hereto.

T. ROWE PRICE ASSOCIATES, INC.

Date: February 16, 2016

Signature: /s/ David Oestreicher

Name & Title: David Oestreicher, Vice President

T. ROWE PRICE SMALL-CAP STOCK

FUND, INC.

Date: February 16, 2016

Signature: /s/ David Oestreicher

Name & Title: David Oestreicher, Vice President

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Group – statutory	7,038	8,742	15,780	1,296

(1) See pages 3 and 4.

External segment assets	As at 30 June 2010 £m	As at 31 Dec 2009(2) £m
Retail	378,051	383,588
Wholesale	404,382	401,836
Wealth and International	82,517	86,272
Insurance	134,965	135,814
Other	28,210	19,745
Total Group	1,028,125	1,027,255
Segment customer deposits		
Retail	230,662	224,149
Wholesale	159,253	153,389
Wealth and International	30,318	29,037
Other	181	166
Total Group	420,414	406,741

(2) Restated to reflect the reclassification of certain balances managed on behalf of Wholesale by Wealth and International.

LLOYDS BANKING GROUP PLC

2. Segmental analysis (continued)

Half-year to 30 June 2009	Net interest income £m	Other income £m	Total income £m	Profit before tax £m	External revenue(2) £m	Inter-segment revenue(2) £m
Retail	3,735	894	4,629	360	7,406	(2,777)
Wholesale	2,495	2,154	4,649	(3,208)	3,089	1,560
Wealth and International	597	554	1,151	(342)	1,626	(475)
Insurance	(158)	1,479	1,321	397	1,831	(510)
Other	(227)	710	483	(1,164)	(1,719)	2,202
Group – combined businesses basis(1)	6,442	5,791	12,233	(3,957)	12,233	–
Insurance grossing adjustment	(206)	1,527	1,321	7		
Integration costs	–	–	–	(358)		
Volatility	2	(593)	(591)	(591)		
Fair value unwind	(1,496)	353	(1,143)	–		
Negative goodwill credit	–	–	–	11,173		
Amortisation of purchased intangibles and goodwill impairment	–	–	–	(604)		
Pre-acquisition consolidated losses of HBOS	(243)	1,123	880	280		
Group – statutory	4,499	8,201	12,700	5,950		

(1) See pages 3 and 5.
(2) Restated to reflect the reclassification of certain central adjustments.

Half-year to 31 December 2009	Net interest income £m	Other income £m	Total income £m	Profit before tax £m	External revenue(2) £m	Inter-segment revenue(2) £m
Retail	4,235	910	5,145	1,022	6,815	(1,670)
Wholesale	2,215	2,045	4,260	(1,495)	2,876	1,384
Wealth and International	620	574	1,194	(2,014)	1,233	(39)
Insurance	(129)	1,465	1,336	578	1,949	(613)
Other	(657)	1,090	433	(434)	(505)	938
Group – combined businesses basis(1)	6,284	6,084	12,368	(2,343)	12,368	–
Insurance grossing adjustment	(1,074)	20,132	19,058	(7)		
Integration costs	–	–	–	(738)		
Volatility	(13)	1,072	1,059	1,069		
Fair value unwind	(670)	782	112	–		
Amortisation of purchased intangibles	–	–	–	(389)		
GAPS fee	–	–	–	(2,500)		

Group – statutory	4,527	28,070	32,597	(4,908)

(1) See pages 3 and 6.
(2) Restated to reflect the reclassification of certain central adjustments.

LLOYDS BANKING GROUP PLC

3. Other income

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Fee and commission income:			
Current account fees	506	537	551
Credit and debit card fees	407	391	374
Other fees and commissions	1,306	1,338	1,063
	2,219	2,266	1,988
Fee and commission expense	(812)	(951)	(566)
Net fee and commission income	1,407	1,315	1,422
Net trading income	1,245	(91)	19,189
Insurance premium income	4,300	4,552	4,394
Gains on capital transactions	423	745	753
Other	1,367	1,680	2,312
Other operating income	1,790	2,425	3,065
Total other income	8,742	8,201	28,070

During the second half of 2009, it was determined that net trading income was a more suitable classification for certain amounts that had previously been included within other operating income. The comparatives for the first half of 2009 have been restated accordingly to reclassify £1,353 million from other operating income to net trading income. In addition, certain fees receivable have been reanalysed to current account fees.

During 2010 and 2009, as part of the Group's management of capital, the Group exchanged certain existing subordinated debt securities for new subordinated debt securities or ordinary shares as described below. These exchanges, explained below, resulted in a gain on extinguishment of the existing liabilities of £423 million (half-year to 30 June 2009: £745 million; half-year to 31 December 2009: £753 million), being the difference between the carrying amount of the securities extinguished and the fair value of the new securities issued together with related fees and costs.

On 18 February 2010, as part of the Group’s recapitalisation and exit from its proposed participation in the Government Asset Protection Scheme, Lloyds Banking Group plc issued 3,141 million ordinary shares in exchange for certain existing preference shares and preferred securities. This exchange resulted in a gain of £85 million.

During March 2010 the Group entered into a bilateral exchange, under which certain Enhanced Capital Notes denominated in Japanese Yen were exchanged for an issue of new Enhanced Capital Notes denominated in US Dollars; the securities subject to the exchange were cancelled and a profit of £20 million arose.

In addition, during May and June 2010 the Group completed the exchange of a number of outstanding capital securities issued by Lloyds Banking Group plc and certain of its subsidiaries for ordinary shares in Lloyds Banking Group plc, generating additional core tier 1 capital for the Group. The securities subject to exchange were cancelled, generating a total profit of £318 million for the Group.

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4. Operating expenses

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Administrative expenses			
Staff costs:			
Salaries	2,139	2,196	2,173
Social security costs	192	177	206
Pensions and other post-retirement benefit schemes:			
Curtailment gain	(1,019)	–	–
Other	347	342	402
	(672)	342	402
Restructuring costs	70	125	287
Other staff costs	473	252	515
	2,202	3,092	3,583
Premises and equipment:			
Rent and rates	285	289	280
Hire of equipment	11	10	10
Repairs and maintenance	97	99	127
Other	190	124	217
	583	522	634
Other expenses:			
Communications and data processing	472	337	331
Advertising and promotion	172	157	178
Professional fees	257	244	296
Other	703	581	729
	1,604	1,319	1,534
	4,389	4,933	5,751
Depreciation and amortisation	1,220	1,291	1,269
Impairment of tangible fixed assets(1)	202	–	–
Goodwill impairment	–	240	–
Total operating expenses, excluding GAPS fee	5,811	6,464	7,020
Government Asset Protection Scheme fee	–	–	2,500
Total operating expenses	5,811	6,464	9,520
Cost:income ratio(2)	46.2%	66.0%	70.6%

(1) £52 million of the impairment of tangible fixed assets relates to integration activities.
(2) Total operating expenses divided by total income, net of insurance claims.

During the first half of 2010, the Group implemented a change to the terms of its principal UK defined benefit pension schemes. As a result of this change all future increases to pensionable salary will be capped each year at the lower of: Retail Prices Index inflation;each employee's actual percentage increase in pay; and 2 per cent of pensionable pay. The effect of this change was to reduce the Group's retirement benefit obligations recognised on the balance sheet by £1,019 million with a corresponding curtailment gain recognised in the income statement.

LLOYDS BANKING GROUP PLC

5. Impairment

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Impairment losses on:			
Loans and advances to customers	5,378	7,471	8,312
Loans and advances to banks	(6)	14	(17)
Debt securities classified as loans and receivables	9	181	67
Impairment losses on loans and receivables (note 11)	5,381	7,666	8,362
Impairment of available-for-sale financial assets	45	342	260
Other credit risk provisions	(3)	45	(2)
Total impairment charged to the income statement	5,423	8,053	8,620

6. Taxation

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

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Profit (loss) before tax	1,296	5,950	(4,908)
Tax (charge) credit thereon at UK corporation tax rate of 28% (2009: 28%)	(363)	(1,666)	1,374
Factors affecting tax (charge) credit:			
Goodwill	–	3,061	–
Disallowed and non-taxable items	131	301	107
Overseas tax rate differences	(267)	(80)	(272)
Gains exempted or covered by capital losses	22	3	(17)
Policyholder interests	(8)	9	(304)
Tax losses where no deferred tax provided	(123)	(246)	(86)
Adjustments in respect of previous years	32	(59)	(7)
Effect of profit (loss) in joint ventures and associates	(17)	(143)	(68)
Other items	(37)	23	(19)
Tax (charge) credit	(630)	1,203	708

LLOYDS BANKING GROUP PLC

7. Earnings per share

	Half-year to 30 June 2010	Half-year to 30 June 2009	Half-year to 31 Dec 2009
Basic			
Profit (loss) attributable to equity shareholders	£596m	£7,095m	£(4,268)m
Weighted average number of ordinary shares in issue	66,151m	32,254m	43,005m
Earnings per share	0.9p	22.0p	(9.9)p
Diluted			
Profit (loss) attributable to equity shareholders	£596m	£7,095m	£(4,268)m
Weighted average number of ordinary shares in issue	66,425m	32,321m	43,005m
Earnings per share	0.9p	22.0p	(9.9)p

The average number of ordinary shares in issue for the first half of 2009 has been adjusted to reflect the impact of the bonus element of share issues in 2009 and earnings per share has been recomputed accordingly.

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

	As at 30 June 2010 £m	As at 31 Dec 2009 £m
Trading assets	26,479	27,245
Other financial assets at fair value through profit or loss:		
Loans and advances to customers	139	166
Loans and advances to banks	–	635
Debt securities	42,685	37,815
Equity shares	78,163	84,150
	120,987	122,766
	147,466	150,011

Included in the above is £117,363 million (31 December 2009: £118,573 million) of assets relating to the insurance business.

LLOYDS BANKING GROUP PLC

9. Derivative financial instruments

	As at 30 June 2010		As at 31 December 2009	
	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	4,767	1,576	4,624	1,236
Derivatives designated as cash flow hedges	4,286	5,382	4,762	7,432
Derivatives designated as net investment hedges	1	85	44	19
	9,054	7,043	9,430	8,687
Trading and other				
Exchange rate contracts	9,452	5,508	9,206	3,913
Interest rate contracts	37,608	37,370	25,942	26,216
Credit derivatives	1,588	349	1,711	444
Embedded equity conversion feature	1,989	–	1,797	–
Equity and other contracts	2,219	1,322	1,842	1,225
	52,856	44,549	40,498	31,798
Total recognised derivative assets/liabilities	61,910	51,592	49,928	40,485

The Group reduces exposure to credit risk by using master netting agreements and by obtaining cash collateral. Of the derivative assets of £61,910 million at 30 June 2010 (31 December 2009: £49,928 million), £27,668 million (31 December 2009: £21,698 million) are available for offset under master netting arrangements. These do not meet the criteria under IAS 32 to enable derivative assets to be presented net of these balances. Of the remaining derivative assets of £34,242 million (31 December 2009: £28,230 million), cash collateral of £2,957 million (31 December 2009: £6,645 million) was held and a further £21,433 million (31 December 2009: £13,004 million) was due from Organisation for Economic Co-operation and Development (OECD) banks.

The embedded equity conversion feature of £1,989 million (31 December 2009: £1,797 million) reflects the value of the equity conversion feature contained in the Enhanced Capital Notes issued by the Group in 2009 as part of the Group's recapitalisation.

LLOYDS BANKING GROUP PLC

10. Loans and advances to customers

	As at 30 June 2010 £m	As at 31 Dec 2009 £m
Agriculture, forestry and fishing	5,566	5,130
Energy and water supply	3,306	3,031
Manufacturing	13,227	14,912
Construction	10,354	10,830
Transport, distribution and hotels	34,439	31,820
Postal and communications	1,632	1,662
Property companies	80,452	83,820
Financial, business and other services	65,646	66,923
Personal:		
Mortgages	360,000	362,667
Other	37,139	42,958
Lease financing	8,905	9,307
Hire purchase	8,155	8,710
	628,821	641,770
Allowance for impairment losses on loans and advances	(16,688)	(14,801)
Total loans and advances to customers	612,133	626,969

Loans and advances to customers include advances securitised under the Group's securitisation and covered bonds programmes. Further details are given in note 12 below.

11. Allowance for impairment losses on loans and receivables

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Opening balance	15,380	3,727	9,533
Exchange and other adjustments	(97)	(320)	481
Advances written off	(3,406)	(1,552)	(2,648)
Recoveries of advances written off in previous years	86	59	51
Unwinding of discount	(128)	(47)	(399)
Charge to the income statement	5,381	7,666	8,362
Balance at end of period	17,216	9,533	15,380
In respect of:			
Loans and advances to banks	94	148	149
Loans and advances to customers	16,688	9,227	14,801
Debt securities	434	158	430
Balance at end of period	17,216	9,533	15,380

LLOYDS BANKING GROUP PLC

12. Securitisations and covered bonds

The Group's principal securitisation and covered bond programmes, together with the balances of the loans subject to notes in issue at 30 June 2010, are listed below.

	As at 30 June 2010		As at 31 December 2009	
	Gross assets securitised	Notes in issue	Gross assets securitised	Notes in issue
Securitisation programmes	£m	£m	£m	£m
UK residential mortgages	150,061	118,608	152,443	129,698
Commercial loans	12,580	8,077	13,071	8,266
Irish residential mortgages	5,826	6,008	6,522	6,585
Credit card receivables	4,861	2,168	5,155	2,699
Dutch residential mortgages	4,232	4,239	4,800	4,663
Personal loans	3,327	2,613	3,730	2,613
PPP/PFI and project finance loans	898	42	877	45
Corporate banking loans and revolving credit facilities	–	3	595	7
Motor vehicle loans	338	361	443	470
	182,123	142,119	187,636	155,046
Less held by the Group		(104,589)		(117,489)
Total securitisation programmes (note 17)		37,530		37,557
Covered bond programmes				
Residential mortgage-backed	97,559	75,693	99,753	76,636
Social housing loan-backed	3,286	2,249	3,356	2,735
	100,845	77,942	103,109	79,371
Less held by the Group		(49,655)		(52,060)
Total covered bond programmes (note 17)		28,287		27,311
Total securitisation and covered bond programmes		65,817		64,868

Securitisation programmes

Loans and advances to customers and debt securities classified as loans and receivables include loans securitised under the Group's securitisation programmes, the majority of which have been sold by subsidiary companies to bankruptcy remote special purpose entities (SPEs). As the SPEs are funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by the subsidiary, the SPEs are consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue. In addition to the SPEs detailed above, the Group sponsors four conduit programmes, Argento, Cancara, Grampian and Landale.

Covered bond programmes

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

Cash deposits of £31,853 million (31 December 2009: £31,480 million) held by the Group are restricted in use to repayment of the debt securities issued by the SPEs, the term advances relating to covered bonds and other legal obligations.

LLOYDS BANKING GROUP PLC

13. Debt securities classified as loans and receivables

Debt securities classified as loans and receivables comprise:

	As at 30 June 2010 £m	As at 31 Dec 2009 £m
Asset-backed securities:		
Mortgage-backed securities	12,861	13,322
Other asset-backed securities	14,258	17,137
Corporate and other debt securities	2,028	2,623
	29,147	33,082
Allowance for impairment losses	(434)	(430)
Total	28,713	32,652

14. Available-for-sale financial assets

	As at 30 June 2010 £m	As at 31 Dec 2009 £m
Asset-backed securities	10,763	12,421
Other debt securities:		
Bank and building society certificates of deposit	330	1,014
Government securities	14,668	8,669
Other public sector securities	16	31
Corporate and other debt securities	15,780	19,904
	30,794	29,618
Equity shares	1,976	2,031
Treasury bills and other bills	4,163	2,532
Total	47,696	46,602

LLOYDS BANKING GROUP PLC

15. Credit market exposures

The table below summarises the Group's exposure to asset-backed securities.

	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Net exposure as at 30 June 2010 £m	Net exposure as at 31 Dec 2009 £m
Mortgage-backed securities					
US residential	4,451	–	–	4,451	4,826
Non-US residential	5,655	3,167	24	8,846	9,655
Commercial	2,393	1,157	–	3,550	3,737
	12,499	4,324	24	16,847	18,218
Collateralised debt obligations					
Corporate	69	–	–	69	86
Commercial real estate	421	–	–	421	509
Other	122	39	–	161	196
Collateralised loan obligations	3,645	1,344	62	5,051	5,745
	4,257	1,383	62	5,702	6,536
Personal sector					
Auto loans	821	454	–	1,275	1,730
Credit cards	2,089	481	–	2,570	3,720
Personal loans	740	266	–	1,006	999
	3,650	1,201	–	4,851	6,449
Federal family education loan programme student loans (FFELP)	5,399	3,175	–	8,574	9,244
Other asset-backed securities	376	582	–	958	1,183
Total uncovered asset-backed securities	26,181	10,665	86	36,932	41,630
Negative basis(1)	–	55	1,203	1,258	1,233
	26,181	10,720	1,289	38,190	42,863
Direct	16,367	6,136	1,289	23,792	27,599
Conduits	9,814	4,584	–	14,398	15,264
Total Wholesale asset-backed securities	26,181	10,720	1,289	38,190	42,863
Other asset-backed securities	938	43	2,251	3,232	3,427
Total asset-backed securities	27,119	10,763	3,540	41,422	46,290

(1) Negative basis means bonds held with separate matching credit default swap (CDS) protection.

LLOYDS BANKING GROUP PLC

15. Credit market exposures (continued)

The table below sets out the Wholesale division’s net exposure to US residential mortgage-backed securities by vintage.

Asset class	Pre-2005 £m	2005 £m	2006 £m	2007 £m	2008 £m	Net exposure as at 30 June 2010 £m	Net exposure as at 31 Dec 2009 £m
Prime	249	211	88	34	–	582	859
Alt-A	121	718	1,532	1,498	–	3,869	3,967
Sub-prime	–	–	–	–	–	–	–
Total	370	929	1,620	1,532	–	4,451	4,826

Exposures to monolines

During 2009 all direct exposure to sub-investment grade monolines on CDS contracts was written down to zero, leaving limited exposure to monoline insurers as set out below.

	Credit default swaps		Wrapped loans and receivables		Wrapped bonds	
	Notional £m	Net exposure(1) £m	Notional £m	Net exposure(2) £m	Notional £m	Net exposure(2) £m
Investment grade	1,085	46	380	247	–	–
Sub-investment grade	–	–	–	–	–	–
Total	1,085	46	380	247	–	–

(1) The exposure to monolines arising from negative basis trades is calculated as the mark-to-market of the CDS protection purchased from the monoline insurer after credit valuation adjustments.

(2) The exposure to monolines on wrapped loans and receivables and bonds is the internal assessment of amounts that will be recovered on interest and principal shortfalls.

In addition, the Group has £2,428 million of monoline wrapped bonds and £677 million of monoline liquidity commitments on which the Group currently places no reliance on the guarantor.

Structured investment vehicles

The Group has no residual exposure to structured investment vehicles’ capital notes.

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15. Credit market exposures (continued)

Credit ratings

An analysis of external credit ratings as at 30 June 2010 of the Wholesale division's asset-backed security portfolio by asset class is provided below. These ratings are based on the lowest of Moody's, Standard & Poor's and Fitch.

Asset class	Net exposure	AAA	AA	A	BBB	BB	B	Below B
	£m	£m	£m	£m	£m	£m	£m	£m
Mortgage-backed securities								
US RMBS								
Prime	582	364	105	56	19	5	2	31
Alt-A	3,869	2,439	790	426	143	38	16	17
Sub-prime	–	–	–	–	–	–	–	–
	4,451	2,803	895	482	162	43	18	48
Non-US RMBS	8,846	7,629	990	227	–	–	–	–
CMBS	3,550	941	1,145	632	708	78	–	46
	16,847	11,373	3,030	1,341	870	121	18	94
Collateralised debt obligations								
Corporate	69	18	37	2	–	12	–	–
Commercial real estate	421	19	–	–	107	211	19	65
Other	161	–	112	–	–	–	–	49
CLO	5,051	764	2,317	1,521	135	290	17	7
	5,702	801	2,466	1,523	242	513	36	121
Personal sector								
Auto loans	1,275	979	96	54	–	146	–	–
Credit cards	2,570	2,206	364	–	–	–	–	–
Personal loans	1,006	288	291	399	28	–	–	–
	4,851	3,473	751	453	28	146	–	–
FFELP Student loans	8,574	8,459	115	–	–	–	–	–
Other asset-backed securities	958	149	–	435	276	98	–	–
Negative basis(1)								
Monolines	984	195	635	154	–	–	–	–
Banks	274	49	6	–	–	–	–	219
	1,258	244	641	154	–	–	–	219
Total as at 30 June 2010	38,190	24,499	7,003	3,906	1,416	878	54	434
Total as at 31 Dec 2009	42,863	31,086	6,375	2,915	1,276	725	92	394

(1) The external credit rating is based on the bond ignoring the benefit of the CDS.

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16. Customer deposits

	As at 30 June 2010 £m	As at 31 Dec 2009 £m
Sterling:		
Non-interest bearing current accounts	8,713	8,091
Interest bearing current accounts	89,550	89,597
Savings and investment accounts	210,376	204,562
Other customer deposits	83,072	76,028
Total sterling	391,711	378,278
Currency	28,703	28,463
Total	420,414	406,741

Included above are liabilities of £45,066 million (31 December 2009: £35,554 million) in respect of securities sold under repurchase agreements.

17. Debt securities in issue

	As at 30 June 2010			As at 31 December 2009		
	At fair value through profit or loss £m	At amortised cost £m	Total £m	At fair value through profit or loss £m	At amortised cost £m	Total £m
Certificates of deposit	–	40,186	40,186	–	50,858	50,858
Medium-term notes issued	5,671	83,151	88,822	6,160	82,876	89,036
Covered bonds (note 12)	–	28,287	28,287	–	27,311	27,311
Commercial paper	–	32,671	32,671	–	34,900	34,900
Securitisation notes (note 12)	–	37,530	37,530	–	37,557	37,557
Total	5,671	221,825	227,496	6,160	233,502	239,662

18. Subordinated liabilities

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

	Half-year to 30 June 2010 £m
At 1 January 2010	34,727
Issued during the period	2,242

Repurchases and redemptions during the period	(2,934)
Foreign exchange and other movements	1,208
At 30 June 2010	35,243

In the half-year to 30 June 2010, as part of the Group's management of capital, the Group exchanged certain existing subordinated debt securities for new subordinated debt securities or ordinary shares as described in note 3.

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19. Share capital

	Half-year to 30 June 2010 Number of shares (million)	Half-year to 30 June 2010 £m
Ordinary shares of 10p each		
At 1 January	63,775	6,378
Issued in the period	4,299	429
At 30 June	68,074	6,807
Limited voting ordinary shares of 10p each		
At 1 January and 30 June	81	8
Deferred shares of 15p each		
At 1 January and 30 June	27,243	4,086
Total share capital		10,901

On 18 February 2010, Lloyds Banking Group plc issued 3,141 million ordinary shares as consideration for the redemption of certain preference shares and preferred securities.

During May and June 2010, Lloyds Banking Group plc issued a further 1,158 million ordinary shares in relation to three separate exchanges for preference shares and other subordinated liabilities issued by the Group.

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20. Reserves

		Other reserves				
	Share premium £m	Available-for-sale £m	Cash flow hedging £m	Merger and other £m	Total £m	Retained profits £m
At 1 January 2010:						
As previously stated	14,472	(914)	(305)	8,305	7,086	11,248
Prior year adjustment(1)	–	131	–	–	131	(131)
Restated	14,472	(783)	(305)	8,305	7,217	11,117
Issue of ordinary shares	1,808	–	–	–	–	–
Redemption of preference shares	11	–	–	(11)	(11)	–
Profit for the period	–	–	–	–	–	596
Purchase/sale of treasury shares	–	–	–	–	–	49
Value of employee services	–	–	–	–	–	64
Change in fair value of available-for-sale assets (net of tax)	–	808	–	–	808	–
Change in fair value of hedging derivatives (net of tax)	–	–	(388)	–	(388)	–
Transfers to income statement (net of tax)	–	(203)	238	–	35	–
Exchange and other	–	–	–	94	94	–
At 30 June 2010	16,291	(178)	(455)	8,388	7,755	11,826

(1) See note 1.

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21. Contingent liabilities and commitments

	As at 30 June 2010 £m	As at 31 Dec 2009 £m
Contingent liabilities		
Acceptances and endorsements	60	59
Other:		
Other items serving as direct credit substitutes	1,430	1,494
Performance bonds and other transaction-related contingencies	2,892	4,555
	4,322	6,049
Total contingent liabilities	4,382	6,108
Commitments		
Documentary credits and other short-term trade-related transactions	420	288
Forward asset purchases and forward deposits placed	918	758
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	9,256	9,058
Other commitments	61,155	64,786
	70,411	73,844
1 year or over original maturity	47,729	53,693
Total commitments	119,478	128,583

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22. Capital ratios

Capital Resources		As at 30 June 2010 £m	As at 31 Dec 2009 £m (1)
Core tier 1			
Ordinary share capital and reserves		47,696	44,275
Regulatory post-retirement benefit adjustments		(912)	434
Available-for-sale revaluation reserve		178	783
Cash flow hedging reserve		455	305
Other items		316	231
		47,733	46,028
Less: deductions from core tier 1			
Goodwill and other intangible assets		(5,491)	(5,779)
Other deductions		(373)	(445)
Core tier 1 capital		41,869	39,804
Perpetual non-cumulative preference shares			
Preference share capital		1,484	2,639
Innovative tier 1 capital instruments			
Preferred securities		4,333	4,956
Total tier 1 capital		47,686	47,399
Tier 2			
Available-for-sale revaluation reserve in respect of equities		374	221
Undated subordinated debt		1,972	2,575
Eligible provisions		1,775	2,694
Dated subordinated debt		21,125	20,068
Less: deductions from tier 2			
Other deductions		(373)	(445)
Total tier 2 capital		24,873	25,113
Supervisory deductions			
Unconsolidated investments	– life	(9,333)	(10,015)
	– other	(1,256)	(1,551)
Total supervisory deductions		(10,589)	(11,566)
Total capital resources		61,970	60,946
Risk-weighted assets		463,196	493,307
Core tier 1 ratio		9.0 %	8.1 %
Tier 1 capital ratio		10.3 %	9.6 %
Total capital ratio		13.4 %	12.4 %

(1) Restated to reflect a prior year adjustment to available-for-sale revaluation reserves (see note 1).

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22. Capital ratios (continued)

Tier 1 capital

Core tier 1 capital increased by £2,065 million largely reflecting the issue of ordinary shares in exchange for certain preference shares, preferred securities and undated subordinated debt issued by the Group. Profit attributable to ordinary shareholders in the six months was £596 million; however, this has been more than offset by a deduction in respect of post-retirement benefits reflecting the impact of the curtailment gain, which is not allowable for capital purposes, and a commitment to make increased deficit contributions to the HBOS final salary pension scheme following the completion of an actuarial valuation.

Tier 1 capital was largely unchanged over the period. The increase in core tier 1 capital was offset by the redemption of the preference shares and preferred securities as part of the liability management exercises referred to above.

The movements in core tier 1 and tier 1 capital in the period are shown below:

	Core tier 1 £m	Tier 1 £m
At 31 December 2009	39,804	47,399
Issue of ordinary shares	2,237	2,237
Profit attributable to ordinary shareholders	596	596
Increase in regulatory post-retirement benefit adjustments	(1,346)	(1,346)
Redemption of preference shares and preferred securities	–	(1,869)
Decrease in goodwill and intangible assets	288	288
Other movements	290	381
At 30 June 2010	41,869	47,686

Tier 2 capital

Tier 2 capital has decreased in the period by £240 million; the effect of new issues of €1.5 billion and £750 million lower tier 2 debt in March and April 2010 respectively and favourable foreign exchange rate movements was offset by the redemption of undated subordinated debt described above, amortisation of dated subordinated debt and lower eligible provisions.

Supervisory deductions

Supervisory deductions mainly consist of investments in subsidiary undertakings that are not within the banking group for regulatory purposes. These investments are primarily the Scottish Widows and Clerical Medical life and pensions businesses. Supervisory deductions have fallen due to repatriation of capital from the insurance businesses during the period.

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22. Capital ratios (continued)

Risk-weighted assets	As at 30 June 2010 £m	As at 31 Dec 2009 £m
Credit risk	416,076	452,104
Operational risk	29,505	25,339
Market and counterparty risk	17,615	15,864
Total risk-weighted assets	463,196	493,307
Divisional analysis of risk-weighted assets:		
Retail	106,798	128,592
Wholesale	280,744	285,951
Wealth and International	59,339	63,249
Insurance	1,744	1,120
Group Operations and Central items	14,571	14,395
	463,196	493,307

Risk-weighted assets decreased by £30,111 million to £463,196 million. This reflects lower lending balances across all banking divisions, tighter risk criteria for new business and an improved credit outlook allowing, in particular, for a revised assessment of secured risk-weighted assets in Retail, partly offset by risk migration in some Wholesale portfolios.

23. Legal and regulatory matters

Interchange fees

The European Commission has adopted a formal decision finding that an infringement of European Commission competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of cross border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the European Economic Area. This decision has been appealed to the General Court of the European Union (the General Court). Lloyds TSB Bank plc and Bank of Scotland plc (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with European Commission competition laws. MasterCard has announced that it has reached an understanding with the European Commission on a new methodology for calculating intra European Economic Area multi-lateral interchange fees on an interim basis pending the outcome of the appeal. Meanwhile, the European Commission and the UK's Office of Fair Trading (OFT) are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe European Commission and/or UK competition laws. As part of this initiative, the OFT will also intervene in the General Court appeal supporting the European Commission position and Visa reached an agreement with the European Commission to reduce the level of interchange for cross-border debit card transactions to the interim levels agreed by MasterCard. The ultimate impact of the investigations on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

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23. Legal and regulatory matters (continued)

Unarranged overdraft charges
In April 2007, the OFT commenced an investigation into the fairness of personal current accounts and unarranged overdraft charges. At the same time, it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

The Supreme Court of the United Kingdom published its judgment in respect of the fairness of unarranged overdraft charges on personal current accounts on 25 November 2009, finding in favour of the litigant banks. On 22 December 2009, the OFT announced that it will not continue its investigation into the fairness of these charges. The Group is working with the regulators to ensure that outstanding customer complaints are concluded as quickly as possible and anticipates that most cases in the county courts will be discontinued. The Group expects that some customers will argue that despite the test case ruling they are entitled to a refund of unarranged overdraft charges on the basis of other legal arguments or challenges. The Group is robustly defending any such complaints or claims and does not expect any such complaints or claims to have a material effect on the Group.

The OFT however continued to discuss its concerns in relation to the personal current account market with the banks, consumer groups and other organisations under the auspices of its Market Study into personal current accounts. In October 2009, the OFT published voluntary initiatives agreed with the industry and consumer groups to improve transparency of the costs and benefits of personal current accounts and improvements to the switching process. On 16 March 2010 the OFT published a further update announcing several further voluntary industry wide initiatives to improve a customer's ability to control whether they used an unarranged overdraft and to assist those in financial difficulty. However, in light of the progress it noted in the unarranged overdraft market since July 2007 and the progress it expects to see over the next two years, it has decided to take no further action at this time and will review the unarranged overdraft market again in 2012.

US sanctions
In January 2009 Lloyds TSB Bank plc announced the settlement it had reached with the US Department of Justice and the New York County District Attorney's Office in relation to their investigations into historic US dollar payment practices involving countries, persons or entities subject to the economic sanctions administered by the US Office of Foreign Assets Control (OFAC). On 22 December 2009 OFAC announced the settlement it had reached with Lloyds TSB Bank plc in relation to its investigation and confirmed that the settlement sum due to OFAC had been fully satisfied by Lloyds TSB Bank plc's payment to the Department of Justice and the New York District Attorney's Office. No further enforcement actions are expected in relation to the matters set out in the settlement agreements.

On 26 February 2009, a purported shareholder filed a derivative civil action in the Supreme Court of New York, Nassau County against certain current and former directors, and nominally against Lloyds TSB Bank plc and Lloyds Banking Group plc, seeking various forms of relief. The derivative action is at an early stage, but the ultimate outcome of the action is not expected to have a material impact on the Group.

Payment protection insurance
In January 2009, the UK Competition Commission (Competition Commission) completed its formal investigation into the supply of Payment Protection Insurance (PPI) services (except store card PPI) to non-business customers in the UK and published its final report setting out its remedies including a prohibition on the active sale of PPI by a distributor to a customer within seven days of the distributor's sale of credit to that customer. Prior to this the Group had made the commercial decision to sell only regular monthly premium PPI to its personal loan customers. Recently the Group ceased to offer PPI products to customers although some existing applications will be honoured for a limited period.

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23. Legal and regulatory matters (continued)

On 16 October 2009, the Competition Appeal Tribunal referred the proposed prohibition back to the Competition Commission. On 14 May 2010, the Competition Commission published its provisional decision retaining in almost all material respects the proposed point of sale prohibition. A final decision is expected in due course and Lloyds Banking Group continues to liaise with the Competition Commission on this issue.

On 1 July 2008, the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Group has been working with other industry members and trade associations in preparing an industry response to address regulatory concerns regarding the handling of PPI complaints.

On 29 September 2009, the FSA issued a consultation paper on PPI complaints handling. The FSA has escalated its regulatory activity in relation to past PPI sales generally and has proposed new guidance on the fair assessment of a complaint and the calculation of redress and a new rule requiring firms to reassess historically rejected complaints. On 9 March 2010, the FSA issued a further consultation paper on this area, the consultation period for which closed on 22 April (the Group has responded to this consultation). The FSA's proposals are materially the same, although it has placed the new rule requiring firms to reassess historically rejected claims on hold for the present. The ultimate impact on the Group of the FSA's complaints handling proposals can only be known on the publication of the FSA's final rules.

The statement on 29 September 2009 also announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. The Group has agreed in principle that it will undertake a review in relation to sales of single premium loan protection insurance made through its branch network since 1 July 2007. The precise details of the review are still being discussed with the FSA. The ultimate impact on the Group of any review can only be known at the conclusion of these discussions.

Other legal actions and regulatory matters

In the ordinary course of its business, the Group is engaged in discussions with the FSA in relation to a range of conduct of business matters, especially in relation to retail products including packaged bank accounts, mortgages, structured products and pensions. The Group is keen to ensure that any regulatory concerns regarding product governance or contract terms are understood and addressed. The ultimate impact on the Group of these discussions can only be known at the conclusion of such discussions.

In addition, during the ordinary course of business the Group is subject to other threatened and actual legal proceedings, regulatory investigations, regulatory challenges 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 to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed properly to assess the merits of the matter and no provisions are held against 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.

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24. Related party transactions

In January 2009, 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 2010, HM Treasury held a 41 per cent interest (December 2009: 43 per cent) in the Company's ordinary share capital and consequently HM Treasury remained a related party of the Company during the first half of 2010.

Details of the Group's material related party transactions with HM Treasury for the year ended 31 December 2009 are included in the Group's 2009 annual report and accounts. During the first half of 2010 there were no further subscriptions by HM Treasury for the Company's ordinary or preference capital, with the decline in the percentage of ordinary shares held by HM Treasury reflecting the issuance by the Company of ordinary shares as set out in note 19.

On 23 March 2010, the Company entered into a deed poll in favour of HM Treasury, the Department for Business, Innovation and Skills and the Departments for Communities and Local Government confirming its lending commitments for the 12 month period commencing 1 March 2010. The Company agreed subject to, amongst other things, sufficient customer demand, to provide gross new lending to UK businesses of £44,000 million and to adjust the undertakings (but not the level of lending agreed in 2009) given in connection with lending to homeowners for the 12 month period. This additional lending is expressed to be subject to the Group’s prevailing commercial terms and conditions (including pricing and risk assessment) and, in relation to mortgage lending, the Group’s standard credit and other acceptance criteria. Other than the revised Lending Commitments referred to above, there were no other material transactions between the Group and HM Treasury during the first half of 2010 that were not made in the ordinary course of business or that were unusual in their nature or conditions.

Except as noted above, other related party transactions for the half-year to 30 June 2010 are similar in nature to those for the year ended 31 December 2009.

25. June 2010 UK Budget statement

A number of the measures announced in the UK Government’s June 2010 UK Budget statement will affect the Group.

The Finance (No.2) Act 2010 includes legislation to reduce the main rate of corporation tax from 28 per cent to 27 per cent with effect from 1 April 2011. The legislation was substantively enacted in July 2010 and as a result it is expected that the Group’s deferred tax asset will reduce by approximately £110 million in the second half of the year, resulting in a charge to the income statement of approximately £80 million and a charge to other comprehensive income of approximately £30 million. In addition, following the triggering of relevant tax variation clauses, the reduction in future rental income within the Group’s leasing business will result in an additional charge to the income statement which is not expected to be material.

The proposed further reductions in the rate of corporation tax by 1 per cent per annum to 24 per cent by 1 April 2014 are expected to be enacted separately each year starting in 2011. The effect of these further changes upon the Group’s deferred tax balances and leasing business cannot be reliably quantified at this stage.

The Government also announced its intention to introduce a bank levy from 1 January 2011. HM Treasury has commenced a consultation to seek views on the detailed implementation of the bank levy prior to drafting legislation to effect the proposed change. At this stage in the process it is not possible to quantify reliably the impact of the introduction of the bank levy upon the Group.

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26. Events after the balance sheet date

On 5 July 2010, Lloyds Banking Group plc announced, subject to regulatory approval and certain other conditions, the sale of a portfolio of private equity investments held by its Bank of Scotland Integrated Finance business to a new joint venture. Lloyds Banking Group will retain an interest in the private equity investments through a holding of approximately 30 per cent in the joint venture vehicle. The sale is expected to complete in the third quarter of 2010 and values the portfolio at a small premium to the current book value. The impact of the sale on the Group's results is not expected to be material.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorised.

Lloyds Banking Group plc

Registrant

/s/ Tim J. W. Tookey
Name: Tim J. W. Tookey
Title: Group Finance Director

August 18, 2010