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

FORM 6-K

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

24 February 2012

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

5th Floor
25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

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

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

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

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

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

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 24 February 2012
re: Final Results - Part 1

2011 Results
News Release

Lloyds Banking Group plc

24 February 2012

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the year ended 31 December 2011.

The Listing Rules of the UK Listing Authority (LR 9.7A.1) require that preliminary statements of annual results must be agreed with the listed company's auditors prior to publication, even though an audit opinion has not yet been issued. In addition, the Listing Rules require such statements to give details of the nature of any likely modification that may be contained in the auditor's report to be included with the annual report and accounts. Lloyds Banking Group plc confirms that it has agreed this preliminary statement of annual results with PricewaterhouseCoopers LLP and that the Board of Directors has not been made aware of any likely modification to the auditors' report required to be included with the annual report and accounts for the year ended 31 December 2011.

Statutory basis

Statutory results are set out on pages 162 to 203. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2011 results with 2010 is of limited benefit.

Combined businesses basis

In order to provide more meaningful and relevant comparatives, the results of the Group and divisions are presented on a 'combined businesses' basis. The key principles adopted in the preparation of the combined businesses basis of reporting are described below.

·

In order to reflect the impact of the acquisition of HBOS, the amortisation of purchased intangible assets has been excluded; and the unwind of acquisition-related fair value adjustments is shown as one line in the combined businesses income statement.

· In order to better present business performance the effects of liability management, volatile items and asset sales are shown on a separate line in the combined businesses income statement and 'underlying income' is total income less these effects. The following items, not related to acquisition accounting, have also been excluded from the combined businesses income statement:

- integration, simplification and EC-mandated retail business disposal costs;
- volatility arising in insurance businesses;
- insurance gross up;
- provision in relation to German insurance business litigation;
- payment protection insurance provision;
- customer goodwill payments provision;
- curtailment gains and losses in respect of the Group's defined benefit pension schemes; and
- loss on disposal of businesses.

To enable a better understanding of the Group's core business trends and outlook, certain income statement, balance sheet and regulatory capital information is analysed between core and non-core portfolios. The non-core portfolios consist of businesses which deliver below-hurdle returns, which are outside the Group's risk appetite or may be distressed, are subscale or have an unclear value proposition, or have a poor fit with the Group's customer strategy. The EC mandated retail business disposal (Project Verde) is included in core portfolios.

The Group's core and non-core activities are not managed separately and the preparation of this information requires management to make estimates and assumptions that impact the reported income statements, balance sheet, regulatory capital related and risk amounts analysed as core and as non-core.

The Group uses a methodology that categorises income and expenses as non-core only where management expect that the income or expense will cease to be earned or incurred when the associated asset or liability is divested or run-off, and allocates operational costs to the core portfolio unless they are directly related to non-core activities. This results in the reported operating costs for the non-core portfolios being less than would be required to manage these portfolios on a stand-alone basis. Due to the inherent uncertainty in making estimates, a different methodology or a different estimate of the allocation might result in a different proportion of the Group's income or expenses being allocated to the core and non-core portfolios, different assets and liabilities being deemed core or non-core and accordingly a different allocation of the regulatory effects.

During 2011, the Group has reassessed its non-core activities and a number of portfolio changes have been made within the Wholesale, Commercial and International portfolios; it is not intended that any further changes will be made to the composition of these non-core portfolios. The disclosures for the year ended 31 December 2010 have been restated on this basis.

Unless otherwise stated income statement commentaries throughout this document compare the year ended 31 December 2011 to the year ended 31 December 2010, and the balance sheet analysis compares the Group balance sheet as at 31 December 2011 to the Group balance sheet as at 31 December 2010.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of risks, uncertainties and other factors, including, without limitation, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits including, without limitation, as a result of the integration of HBOS and the Group's simplification programme; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets including

Eurozone instability; changing demographic and market related trends; changes in customer preferences; changes to regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK, the European Union, or jurisdictions outside the UK, including other European countries and the US; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EU state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations; exposure to regulatory scrutiny, legal proceedings or complaints, actions of competitors and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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KEY HIGHLIGHTS

'In 2011, we established our longer term strategy for the Group, acted quickly and decisively to mitigate the effects of a challenging environment and put in place the right foundations to deliver on our objectives over the next 3 - 5 years, whilst continuing to support the UK economy. Using the framework set out in our Strategic Review, we accelerated strengthening our balance sheet, decreasing risk and reducing costs. The investments we made behind our brands, distribution, customer relationships and people have strengthened our franchise, and created new opportunities which will enable us to realise over time the Group's full potential for growth.'

António Horta-Osório
Group Chief Executive

GOOD PROGRESS AGAINST STRATEGY CREATING NEW OPPORTUNITIES FOR GROWTH

- Balance sheet further strengthened

  - Capital position strengthened: Core tier 1 capital ratio of 10.8 per cent, improved by 60 basis points.
  - Strong deposit growth: customer deposits (excluding repos) increased 6 per cent to £406 billion.
  - Funding position significantly improved: wholesale funding reduced to £251 billion, down 16 per cent.
  - Strong progress against term funding objectives with £35 billion of wholesale term issuance.

- Loan to deposit ratio substantially improved to 135 per cent (31 December 2010: 154 per cent).

• Reshaping our business portfolio: reducing risk, focusing on the core, and exiting non-core areas.

- Substantial non-core asset reduction of £53 billion to £141 billion.

- Conservative approach to, and prudent appetite for, risk fully embedded across the business.

- Increased focus on the core business, while substantially decreasing non-core assets.

- Announced exit from operations in seven overseas countries.

• Simplifying the Group: reducing costs and creating a new operational model.

- Integration successfully executed, realising annual run-rate savings of more than £2 billion.

- Strong initial progress on delivery of simplification initiatives, using our proven capabilities from Integration.

- Simplification run-rate cost savings of £242 million at end 2011.

• Invest to be the best bank for our customers: creating new opportunities for growth.

- Successful launch of multibrand strategy, including relaunch of Halifax as a challenger brand.

- Support for Small and Medium-sized Enterprises (SMEs) strengthened: Merlin commitments exceeded, and Commercial loan growth of 3 per cent against UK market down 6 per cent.

- Good bancassurance progress with Retail and Commercial (SME) customers.

- Increased market shares in key, capital-light Wholesale products, facilitated by Arena platform.

- New Wealth propositions developed covering 80 per cent of customers, and processes simplified.

RESILIENT UNDERLYING TRADING PERFORMANCE IN 2011, IN LINE WITH EXPECTATIONS

• Growth initiatives, cost and impairment reductions, and funding mix improvements mitigated the effects of a subdued UK economy, risk and asset reductions, and higher wholesale funding costs.

- Combined businesses profit before tax increased 21 per cent to £2,685 million in 2011.

- Core combined businesses profit before tax increased 3 per cent to £6,349 million.

- Statutory loss before tax was £3,542 million (2010: profit of £281 million), and includes a £3.2 billion non-recurring provision for Payment Protection Insurance (PPI) contact and redress costs.

- Income decreased 10 per cent to £21,123 million, reflecting subdued lending demand and continued customer deleveraging in the core, a smaller non-core portfolio, and a lower margin.

- Banking net interest margin reduced by 14 basis points to 2.07 per cent, in line with expectations, with increased funding costs partially offset by the benefits of asset repricing and funding mix; core net interest margin declined only 6 basis points to 2.42 per cent given the better funding mix in the core business.

- Total costs fell 4 per cent, primarily driven by Integration and Simplification related savings and lower bonus accruals, partially offset by inflationary pressures and UK bank levy and FSCS costs.

- The impairment charge reduced significantly, by 26 per cent to £9,787 million, with improvements seen across all divisions, reflecting improving portfolio credit quality.

OUTLOOK AND FINANCIAL GUIDANCE

- Expect the external environment to remain challenging in 2012.

- Remain confident that our medium-term financial targets, as set out in our June 2011 Strategic Review are achievable over time.

- As anticipated in our Q3 2011 Interim Management Statement, now expect the attainment of income related targets, including for other operating income, to be delayed beyond 2014 as a result of the weaker than expected economic outlook.

- As a consequence, also expect the attainment of our return on equity target to be delayed beyond 2014.

- Continue to expect to deliver our balance sheet, cost and impairment targets in 2014, and in some cases sooner.

- In-year cost savings target for 2014 increased by £200 million to £1.7 billion; end 2014 run-rate target increased to £1.9 billion.

- Given expectation of further deposit growth, expect to reach medium-term Group loan-to-deposit ratio target of 130 per cent or below by the end of 2012, two years ahead of plan.

- In 2012, on a combined businesses basis, we expect:

- Income to be lower than in 2011 given the economic outlook, further non-core asset reductions, subdued demand in the core loan book, higher wholesale funding costs, and interest rates likely to remain at low levels for longer.

- Full year banking net interest margin to be below 2 per cent in 2012, falling year-on-year by approximately the same amount in 2012 as in 2011, primarily driven by continuing high wholesale funding costs.

- A further reduction in costs, and a similar percentage reduction in Group impairment as seen in 2011, with the largest improvement coming from International.

- The benefit from fair value unwind to reduce to approximately £0.5 billion.

- To continue to strengthen our balance sheet through: non-core asset reduction of approximately £25 billion, further deposit growth, at least in line with the market, and strengthening our funding position and our core tier 1 ratio.

Further detail on our outlook and financial guidance is given at the end of the Group Chief Executive's statement on page 11.

António Horta-Osório
Group Chief Executive

SUMMARY OF RESULTS

Results	2011 £m	2010 £m	Change %
Statutory			
Total income, net of insurance claims	20,771	24,956	(17)
Total operating expenses	(16,250)	(13,270)	(22)
Trading surplus	4,521	11,686	(61)
Impairment	(8,094)	(10,952)	26
(Loss) profit before tax	(3,542)	281	
Loss attributable to equity shareholders	(2,787)	(320)	
Loss per share	(4.1)p	(0.5)p	
Combined businesses basis (note 1, page 95)			
Total income, net of insurance claims	21,123	23,444	(10)
Total costs	(10,621)	(11,078)	4
Trading surplus	10,502	12,366	(15)
Impairment	(9,787)	(13,181)	26
Profit before tax	2,685	2,212	21
Banking net interest margin	2.07%	2.21%	
Banking asset margin	1.46%	1.71%	
Banking liability margin	0.98%	0.92%	
Impairment as a % of average advances1	1.62%	2.01%	
Cost:income ratio2	50.3%	46.6%	
Combined businesses basis - core			
Total income, net of insurance claims	19,536	20,023	(2)
Total costs	(9,682)	(9,884)	2
Trading surplus	9,854	10,139	(3)
Impairment	(2,887)	(3,612)	20
Profit before tax	6,349	6,152	3
Banking net interest margin	2.42%	2.48%	
Impairment as a % of average advances1	0.64%	0.75%	
Cost:income ratio	49.6%	49.4%	

1 Impairment on loans and advances to customers divided by average loans and advances to customers, excluding reverse repo transactions, gross of allowance for impairment losses.

2 Total costs excluding the impairment of tangible fixed assets of £150 million in the year ended 31 December 2010, divided by total income net of insurance claims.

SUMMARY OF RESULTS (continued)

Capital and balance sheet	As at 31 December 2011	As at 31 December 2010	Change %
Statutory			
Loans and advances to customers1	£565.6bn	£592.6bn	(5)
Customer deposits2	£413.9bn	£393.6bn	5
Loans and advances to customers excl reverse repurchase agreements (repos)	£548.8bn	£589.5bn	(7)
Customer deposits (excluding repos)	£405.9bn	£382.5bn	6
Total customer balances3	£954.7bn	£972.0bn	(2)
Loan to deposit ratio4	135%	154%	
Average interest-earning banking assets	£585.4bn	£625.9bn	(6)
Funds under management5	£182.0bn	£192.0bn	(5)
Wholesale funding (see page 110)	£251.2bn	£298.0bn	(16)
Wholesale funding >1 year maturity	55%	50%	
Funded assets (see page 113)	£587.7bn	£655.0bn	(10)
Primary liquidity portfolio (see page 116)	£94.8bn	£97.5bn	(3)
Risk-weighted assets	£352.3bn	£406.4bn	(13)
Core tier 1 capital ratio	10.8%	10.2%	
Net tangible assets per share	58.6p	59.2p	
Leverage ratio	17 times	17 times	
Core			
Loans and advances to customers (excluding reverse repos)	£437.0bn	£454.2bn	(4)
Customer deposits (excluding repos)	£401.5bn	£377.0bn	6
Total customer balances	£838.5bn	£831.2bn	1
Loan to deposit ratio4	109%	120%	
Total core assets	£829.8bn	£797.9bn	4
Risk-weighted assets	£243.5bn	£262.5bn	(7)
Non-core			
Total non-core assets	£140.7bn	£193.7bn	(27)
Risk-weighted assets	£108.8bn	£143.9bn	(24)

1 Includes reverse repos of £16.8 billion (31 December 2010: £3.1 billion).
2 Includes repos of £8.0 billion (31 December 2010: £11.1 billion).
3 Total customer balances are the aggregate of loans and advances to customers excluding reverse repos and customer deposits excluding repos.
4 Loans and advances to customers (excluding reverse repos) divided by customer deposits (excluding repos).
5 Funds under management within Wealth and International division.

GROUP CHIEF EXECUTIVE'S STATEMENT

Summary

In 2011, we established our longer term strategy for the Group, acted quickly and decisively to mitigate the effects of a challenging environment and put in place the right foundations to deliver on our objectives over the next 3 - 5 years, whilst continuing to support the UK economy. Using the framework set out in our Strategic Review, we accelerated strengthening our balance sheet, decreasing risk and reducing costs. The investments we made behind our brands, distribution, customer relationships and people have strengthened our franchise, and created new opportunities which will enable us to realise over time the Group's full potential for growth. We also made good progress on the EC mandated business disposal ('Project Verde'), and saw greater clarity emerge on the future UK regulatory framework following the publication of the Independent Commission on Banking's (ICB's) final report and the Government's response on 19 December 2011.

As a result, in 2011, we delivered a resilient performance and made good progress against the key elements of our strategic plan to become the best bank for our customers, despite a weakening UK economy, ongoing financial market volatility, continued high levels of regulatory scrutiny and competitive markets. We are now better positioned to adapt to the changing economic environment and to realise over time the full potential of our franchise, brands and capabilities, and therefore to deliver strong, stable and sustainable returns for our shareholders.

2011 results overview

The results reflect our focus on rapidly improving the Group's risk profile and further strengthening the balance sheet, through improving the Group's capital and funding position and making substantial progress on non-core asset reductions, deposit growth, and our funding programme.

While this means that we now have a much more resilient balance sheet, our income performance was affected by these risk and asset reductions, as well as by the subdued UK economic environment. On a statutory basis, our results were affected by, amongst other things, the responsible position we took on Payment Protection Insurance (PPI), which resulted in a £3.2 billion provision. In addition, with over £2 billion of run-rate cost savings now realised from integration, we have now commenced the simplification initiatives which will significantly improve our efficiency and are allowing us to invest in growing our core customer business.

In reducing risk and strengthening the balance sheet, our proactive management of the non-core portfolio and of our funding position meant that we reduced non-core assets by £53 billion to £141 billion, against a commitment to decrease the non-core portfolio to less than £90 billion by the end of 2014, and significantly strengthened our funding position, raising £35 billion of total term wholesale funding, around £10 billion more than initially budgeted.

The new pricing management of savings products we introduced in the year and our multi-brand strategy resulted in customer deposit growth (excluding repos) of 6 per cent, significantly above market growth, and without leading the market on rates. We had a particularly strong performance in our Halifax challenger brand as a result of innovative products launched in the year. As a consequence of our actions in reducing non-core loans and increasing deposits, we substantially improved our loan to deposit ratio, by 19 percentage points to 135 per cent.

Deposit growth and our progress in funding and non-core asset reductions facilitated further substantial pay-down of government and central bank facilities from £97 billion at the 2010 year end to £24 billion at the end of 2011 (with nothing outstanding under the UK Special Liquidity Scheme). Non-core asset reductions, which were made broadly in line with book value, were a substantial driver behind the improvement in our core tier 1 capital ratio from 10.2 per cent at the 2010 year end to 10.8 per cent, notwithstanding the impact of the PPI provision of around 60 basis points.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

The Group reported a combined businesses profit before tax of £2,685 million in 2011 (2010: £2,212 million), and excluding the effects of liability management, volatile items and asset sales, profit before tax was £2,022 million (2010: £1,651 million). The core business delivered a resilient performance, with profit before tax of £6,349 million (2010: £6,152 million), and excluding volatile items, liability management effects and asset sales profit before tax was £5,746 million (2010: £6,101 million). On a statutory basis, the Group reported a loss before tax of £3,542 million in the year, which includes the PPI related provision.

Subdued markets in the core business and the effect of non-core asset reductions resulted in a reduction in income (excluding volatile items, liability management effects and asset sales, and net of insurance claims) of 10 per cent to £21,197 million. This was partly offset by a 6 per cent reduction in operating expenses, despite the headwinds of inflation and higher taxes, as a result of the management actions we took during the year, and a 26 per cent reduction in the impairment charge, reflecting improving credit quality in our portfolios.

The benefits from the improvements we achieved in the Group's funding mix, increasing deposit balances and reducing the proportion of wholesale funding, were most clearly evident in our core net interest margin. This declined by only 6 basis points to 2.42 per cent, despite the impact of higher funding costs, the effect of refinancing a significant amount of government and central bank facilities and lower interest rates in general. However, our Group net interest margin declined by 14 basis points to 2.07 per cent, in line with guidance, given that it reflected the full impact of these effects on our predominantly wholesale funded non-core business.

Our strategy and action plan to deliver for customers and shareholders

Our strategy, which we set out on 30 June 2011 following an extensive and detailed review of the business, is focused on the UK, where we have distinctive assets and capabilities including our valuable customer franchise and market position, and multiple strong brands.

It is built on being the best bank for our personal, commercial and corporate customers, creating value by investing in initiatives where we can make a real difference for them, and focussing on operating sustainably and responsibly with the objective of delivering strong, stable and sustainable returns for shareholders over time.

While our focus is on restoring the Group to sustainable profitability and delivering returns for all shareholders, we expect the delivery of our strategic targets to provide, over time, an opportunity for the UK Government to dispose of its shareholding in the Group in an orderly manner, and deliver value for taxpayers.

Our strategy will create shareholder value through simplifying processes, systems and products and policies, and investing a proportion of the savings realised from this simplification in growth initiatives targeted at high-return areas of our business, and by ensuring that capital is primarily allocated to core growth businesses.

The four elements of our action plan to deliver our strategy are to:

- Strengthen our balance sheet and liquidity position
- Reshape our business portfolio to fit our assets, capabilities and risk appetite
- Simplify the Group to improve agility, service and efficiency
- Invest to be the best bank for our customers and to grow our core customer businesses

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Good progress against strategic initiatives

We are already making good progress against the key initiatives set out in our strategy.

In reshaping our business portfolio, we have fully embedded across the business a conservative approach to, and prudent appetite for, risk. We have in place rigorous controls over the risk profile of all new business, as evidenced, for example, in the Retail mortgage book where we have seen impaired loans decreasing but where our coverage ratio has increased, and are managing and successfully reducing our non-core assets in a disciplined manner and broadly in line with book value. In the core business, the improving quality of our portfolios and their decreasing risk profile, has been reflected in a 7 per cent decrease in risk-weighted assets. We have also reviewed our existing portfolios and confirmed them as adequately provisioned.

Given our UK-focused strategy to capitalise on the strength of our capabilities in the UK, we have also committed to reduce our international presence from 30 countries to less than 15 by 2014. To date we have announced the exit from operations in seven countries.

Our integration programme has now delivered single platforms supporting the Halifax, Bank of Scotland and Lloyds TSB brands and, by the end of 2011, had achieved more than £2 billion per annum of run-rate cost synergies and other operating efficiencies.

Simplifying the Group is a cornerstone of our strategy, not only in its delivery of cost savings, but also importantly in simplifying our products and services from the customer's point of view, and allowing us to increase investment in our franchise. We have now commenced the delivery of the simplification initiatives set out in our strategy, and by the end of 2011 had achieved initial run rate savings of £242 million in the first six months of the programme. We have also greatly improved our cost management through instituting a rigorous process overseen by a Cost Board, which has helped the Group drive significant reductions in our operating expenses.

A portion of the savings realised from our simplification programme will allow us to further invest to be the best bank for our customers, and to grow our core customer businesses which is at the heart of our strategy. We commenced the implementation of a number of key initiatives in 2011, with the revitalisation of the Halifax brand and strengthening our support for Small and Medium-sized Enterprises both resulting in a significant outperformance of those business areas against market trends.

We have also begun to invest behind increasing our share of capital-light business in our corporate and commercial businesses. Key successes included the launch of 'Arena', our online foreign exchange and money market deposit platform and our UK government bond market making operation in our Wholesale business. In Insurance, our focus on UK customer needs delivered a 23 per cent increase in LP&I UK protection sales (PVNBP), which now account for 22 per cent (2010: 13 per cent) of bancassurance sales.

Further details on the good progress we have made against our strategic initiatives in each business are given in each of the divisional reviews in this document.

Management team changes

On 1 February 2012, we announced changes to the Group's senior management team to ensure we have the right organisational structure to deliver on our strategy and move to the next phase of the Group's transformation. As a result, five business lines, Retail, Wholesale, Commercial, Wealth and International, and Insurance, now report directly to me and, further to the centralisation of all control functions as part of the Strategic Review, five control and support functions also report to me, namely Group Corporate Functions (into which Human Resources, Legal and Secretariat and Group Audit report), Risk, Finance, Operations, and Corporate Affairs.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Supporting our customers and the UK economy

As part of our strategy to be the best bank for customers, and as a leading financial services provider in the UK, we continue to actively support sustainable growth in the UK economy through the focused range of products and services we provide to our business and personal customers, as well as through partnerships we have built with industry and Government.

The banking industry has faced much criticism in recent years and we recognise that significant work is required to rebuild trust with customers and other stakeholders. The financial services sector does however have a fundamental role to play in society in supporting both individuals and businesses through the provision of financial and payment services, and can be instrumental in helping the economy prosper and grow. The industry can help ensure the future strength and economic well being of the UK and its people and given our strategic assets we aim to play an important part in this.

I am pleased to report that during 2011, despite the challenging economic climate, the Group exceeded its full year contribution to the 'Merlin' lending commitments which were agreed in February with the UK Government, both for SMEs and in total. In the full year we provided £45 billion of committed gross lending to UK businesses, of which £12.5 billion was to SMEs. In the same period, the Group supported the start-up of 124,000 new SME businesses. For 2012, we have relaunched our SME Charter in which we have pledged to make at least £12 billion of gross new lending available to SMEs.

SMEs are a particularly important source of job creation and growth in the UK. Our core Commercial business is focused on serving these customers, and we demonstrated our support for SME customers in 2011 with year on year net lending growth of 3 per cent in this business area. This compared favourably with the negative growth in SME lending across the industry reported in the latest available market statistics from the Bank of England. In 2012, we have pledged to make at least £12 billion of gross new lending available to SMEs, with a further pledge to deliver positive net lending growth, to help stimulate economic output and improve confidence in the sector. As a member of the Business Finance Taskforce, we have led work to improve SME customer relationships through mentoring and a right to appeal and have agreed to contribute £300 million to the Business Growth Fund to provide better access to equity finance.

For our Retail customers, the Group completed £28 billion of new mortgage business in 2011, achieving a market share of approximately 20 per cent of gross new residential mortgage lending. We are committed to supporting the UK housing market and first-time buyers in particular. We advanced more than £5.6 billion of new lending to first-time buyers in 2011, helping over 52,000 customers own their first homes. Our market share of new first-time buyer business was approximately 24 per cent by value in 2011. In total, we advanced more than £15.5 billion of new mortgages to over 124,000 customers buying their home in the UK in 2011. Our Halifax brand is a leading lender in the affordable housing sector, with a dedicated product range designed for borrowers seeking shared equity or shared ownership schemes.

Looking forward, as part of our commitment to customers, we will keep the same net number of branches in our network for the next three years, excluding Verde, and we will not close a branch if it is the last one in a community.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

We also committed to reduce the level of FSA reportable complaints we receive, excluding PPI complaints, by 20 per cent in 2011 compared to 2010. We achieved a 24 per cent reduction, and reduced our banking complaints per 1,000 accounts to 1.5. We achieved this through initiatives such as our Phone a Friend service, training of our 40,000 front line colleagues, and the roll out in the second half of an externally accredited complaint handling qualification. This makes us the first financial services organisation to have professionally qualified complaint handlers. To enable our customers get the right outcome faster, we are extending the opening hours of our specialist complaints teams to 24 hours a day, 7 days a week. As a result of these initiatives, we are now resolving over 90 per cent of complaints at first touch. In 2012, we have committed to improving this performance further, by reducing banking complaints to just 1.3 per 1,000 current accounts, and in 2014 to 1.0 per 1,000 current accounts.

Meeting our customers' needs with successful new products and services

Our strategy recognises our customers' needs for product simplicity and transparency, access through multiple channels, and value-for-money products and services. I am therefore pleased at the success of the new products and services launched in 2011, and the widespread recognition and broad range of external awards achieved across the Group. In Retail, notable product successes included a number of innovative Halifax savings products, which while not rate-leading, delivered strong deposit growth. These included, in the first half, the ISA Promise which saw our cash ISA balances grow significantly above our historic share, and, in the second half, the Savers Prize Draw which saw over 450,000 customers registered for the first draw.

We also received a number of external awards recognising the quality and consistency of delivery to our customers. Within Wholesale, our Corporate Markets area won the Best Bank of the Year award for the seventh consecutive year at the Real FD/CBI Excellence awards, while in Retail we were named 'Best Overall Mortgage Lender' for the tenth year running in the Your Mortgage Magazine Awards and in Insurance we were named as Britain's most popular home insurance provider by the independent market researchers GFK NOP for the tenth year in a row. In responding to our customers' need for access through multiple channels, in Retail, we launched a suite of Mobile Banking apps, and have now recorded one and a half million downloads.

Our commitment to our employees

Our success depends on our employees, the service they provide for our customers, and the long-term partnerships they build with them. We are committed to attracting, retaining and developing our people, and in 2011 launched a number of initiatives to identify and develop our future leaders, to simplify the link between performance and reward, and to ensure colleagues have the capabilities to deliver excellent service through learning and development resources such as our Learning Academies, through supporting external qualifications, and by introducing development and review programmes.

While the results of the colleague engagement survey we conducted in the second half of the year reflected both the challenging external environment and the work that remains to be done in ensuring Lloyds Banking Group is a great place to work, the progress we have made during the year reflects the strong capabilities and dedication of our people which will continue to support the delivery of our strategy.

Remuneration is an important issue for our stakeholders and the Group. We are keen to ensure we recruit and retain the right employees to drive our business forward and deliver on our strategy while ensuring that there is alignment between remuneration and results. Variable pay is reflective of the performance of the business and total discretionary bonus awards are approximately 30 per cent lower than last year with bonuses above £2,000 subject to deferral and adjustment. In addition, given the continued challenging economic conditions salary awards have been limited, especially at more senior levels.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

EC mandated business disposal ('Project Verde')

Following our decision early in 2011 to accelerate Project Verde, we have made good progress, and, having reviewed the formal offers for the Verde business, the preferred bidder for the business is The Co-operative Group. Any final transaction will be subject to regulatory approval and certain other conditions. The Group will continue to progress an IPO as an alternative to a direct sale. We remain on track to complete the transfer of the business before the end of 2013.

Equity dividends

The European Commission's restriction on equity dividend payments was part of the conditions of the State Aid restructuring plan which expired in early 2012. We understand that the absence of dividends has created difficulties for many of our shareholders and we remain committed to recommencing progressive dividend payments as soon as we are able.

It is our intention to do so when the financial position of the Group and market conditions permit, and after regulatory capital requirements are defined and prudently met. At this time those requirements remain unclear and although we have made good progress against our strategic priorities during the year we are not yet able to forecast when we will be able to resume dividend payments, although we continue to strive to recommence them as soon as possible.

Greater clarity emerging on UK regulatory framework

The publication of the ICB's final report in September and the Government's response to the report in December are significant steps in providing greater clarity on changes to the regulatory framework for the UK banking industry to secure greater financial stability.

On competition, we are pleased that the Verde sale is seen as creating an effective new challenger in our market, and that our proposals, developed with the Payments Council, to make it quicker and simpler for customers to switch accounts, were recommended by the ICB and backed by the Government.

We also welcome the Government's endorsement of the ICB's proposals to ring-fence retail banking operations as part of a wider regulatory framework including capital and liquidity and effective macro- and micro-prudential supervision, which should remove any implicit tax-payers' guarantee for the ring-fenced entities. Given that we are predominantly a retail and commercial bank, we would expect to be less affected by the implementation of a retail ring-fence, but believe it will be important for any transition period to be flexible in order to minimise any impact on economic growth, and for banks to implement the required structural changes.

The ICB also recommended that ring-fenced banks should hold a capital base of at least 10 per cent to absorb the impact of potential losses or financial crises. The Government's proposals on capital are consistent with the capital targets we set in our strategic review in 2011 and, although much work remains to be done on the detail of the implementation capital requirements, we are on track to achieve the capital levels the ICB recommends.

We expect the Government to provide further details of its plans in the spring of 2012 and to outline which of the proposals it intends to progress to legislation. We will continue to work with HM Treasury and our regulators in the coming months ahead of the publication of the final white paper.

Economic outlook

While the outlook for the UK economy remains uncertain, and vulnerable to developments in the Eurozone, we believe the most likely scenario is for further weakness in the first half of 2012 followed by a relatively modest recovery in the second half resulting in broadly flat real GDP for the year as a whole, with further modest recovery in 2013. As a result, we expect UK base rates to remain at current levels into 2013, and unemployment to rise from

current levels to peak at around 9 per cent in 2013. However, we expect inflation (CPI) to fall from current high levels to below 3 per cent in 2012 and possibly below 2 per cent in 2013. UK property prices are likely to reflect the weak economic environment, with house prices remaining broadly flat in 2012 and 2013 and commercial property prices likely to be marginally weaker in 2012, and marginally stronger in 2013.

Outlook and financial guidance
We expect the external environment to remain challenging in 2012, with a subdued economy, continued high levels of regulatory scrutiny and political uncertainty relating to the banking sector, and the continued potential for downside effects from financial market volatility and instability in the Eurozone.

Nevertheless, we remain confident that our medium-term financial targets, as set out in our June 2011 Strategic Review are achievable over time, although, as we anticipated in our Q3 2011 Interim Management Statement, we now expect the attainment of our income related targets, including for Other Operating Income, to be delayed as a result of the weaker than expected economic outlook. As a consequence, we now also expect the attainment of our return on equity target to be delayed beyond 2014. On the other hand, we continue to expect to deliver our balance sheet, cost and impairment targets in 2014, and in some cases sooner, given the good progress made so far.

In relation to our balance sheet, this progress includes the £53 billion reduction in non-core assets achieved in the year and the 60 basis point increase in our core tier 1 ratio to 10.8 per cent. As regards our income targets, we have reduced our asset quality ratio (impairment as a percentage of average advances) by 39 basis points to 1.62 per cent, a significant step towards our target of 50 to 60 basis points. The positive strong momentum of our Simplification programme, with £242 million of run-rate cost savings already achieved at the end of 2011, means that we are now increasing our target cost savings from this programme by £200 million, to £1.9 billion (from £1.7 billion) by the end of 2014, and to £1.7 billion from £1.5 billion in 2014.

Given the economic outlook, in 2012, on a combined businesses basis, we expect income to be lower than in 2011, given further non-core asset reductions, subdued demand in the core loan book, higher wholesale funding costs, and interest rates likely to remain at low levels for longer. We retain significant capacity to grow core assets subject to demand and to maintaining our prudent appetite for risk. Our banking net interest margin, as expected, was marginally below 2 per cent in the fourth quarter of 2011. We expect our full year banking net interest margin to be below 2 per cent in 2012, falling year-on-year by approximately the same amount in 2012 as in 2011, primarily driven by continuing high wholesale funding costs. We expect the benefit from fair value unwind to reduce to approximately £0.5 billion in 2012. However, we expect a further reduction in costs, and a similar percentage reduction in Group impairment in 2012 as seen in 2011, as a result of further asset quality improvements across the divisions, with the largest improvement coming from International.

We expect to continue to strengthen our balance sheet in 2012, by a further reduction in non-core assets of approximately £25 billion, through targeting further deposit growth, at least in line with the market, by strengthening our funding position, with approximately 50 per cent of our term wholesale funding target for 2012 already completed, and by further improving our core tier 1 ratio. Growth in customer deposits remains a key part of our funding strategy, and, assuming a continuation of current trends, we would expect to reach our medium-term Group loan-to-deposit ratio target of 130 per cent or below by the end of 2012, two years ahead of plan.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

While we remain mindful of the challenges of the external environment, Lloyds Banking Group is now in a significantly stronger position than it was twelve months ago, and I would like to thank all our people for their contribution to our progress in 2011. Given we are likely to have lower interest rates for longer and higher regulatory costs along with deleveraging in credit markets, it will be those banks who can create competitive advantage through a lower risk premium combined with best in class efficiency who will achieve superior returns and will capture the

opportunities as economic conditions improve. Absent a material deterioration in the economic environment, we remain confident in our ability to continue to execute against our strategic plan, and therefore continue to believe we are well positioned to realise over time the full potential of our organisation, brands and capabilities, and to achieve strong, stable and sustainable returns for shareholders.

António Horta-Osório
Group Chief Executive

COMBINED BUSINESSES INFORMATION

The analysis and commentary that is set out on pages 14 to 105 is presented on a combined businesses basis. The basis of preparation of the combined businesses results is set out on page 95.

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COMBINED BUSINESSES CONSOLIDATED INCOME STATEMENT

	2011 £ million	2010 £ million
Net interest income	12,233	14,143
Other income	9,307	9,936
Effects of liability management, volatile items and asset sales1	(74)	(93)
Total income	21,466	23,986
Insurance claims	(343)	(542)
Total income, net of insurance claims	21,123	23,444
Costs:		
Operating expenses	(10,253)	(10,882)
Other costs2	(368)	(196)
	(10,621)	(11,078)
Trading surplus	10,502	12,366
Impairment	(9,787)	(13,181)
Share of results of joint ventures and associates	27	(91)
Profit (loss) before tax and fair value unwind	742	(906)
Fair value unwind	1,943	3,118
Profit before tax - combined businesses	2,685	2,212

The basis of preparation of the combined businesses income statement is set out on the inside front cover.

RECONCILIATION OF COMBINED BUSINESSES PROFIT BEFORE TAX TO STATUTORY (LOSS) PROFIT BEFORE TAX FOR THE YEAR

	2011 £ million	2010 £ million
Profit before tax - combined businesses	2,685	2,212
Integration, simplification and EC mandated retail business disposal costs	(1,452)	(1,653)
Volatility arising in insurance businesses (note 7, page 102)	(838)	306
Amortisation of purchased intangibles	(562)	(629)
Provision in relation to German insurance business litigation (note 23, page 194)	(175)	-
Payment protection insurance provision (note 22, page 192)	(3,200)	-
Customer goodwill payments provision	-	(500)
Pension curtailment gain	-	910
Loss on disposal of businesses	-	(365)
(Loss) profit before tax - statutory	(3,542)	281

1 Includes the gains from liability management exercises (see note 3 on page 99), the net effect of banking volatility, changes in the fair valuation of the equity conversion feature of the Group's Enhanced Capital Notes, net derivative valuation adjustments and gains or losses on disposals of assets which are not part of normal business operations.

2 Other costs include FSCS costs and UK bank levy in 2011, and FSCS costs and impairment of tangible fixed assets in 2010.

COMBINED BUSINESSES PROFIT (LOSS) ANALYSIS BY DIVISION

	2011 £ million	2010 £ million
Retail	3,636	3,986
Wholesale	828	2,514
Commercial1	499	291
Wealth and International	(3,936)	(4,950)
Insurance	1,422	1,326
Group Operations and Central items:		
Group Operations	(56)	(52)
Central items	292	(903)
	236	(955)
Profit before tax	2,685	2,212

1 Commercial comprises the Group's SME business and was previously part of Wholesale. Comparatives have been restated accordingly.

COMBINED BUSINESSES HALF-YEAR PROFIT (LOSS) ANALYSIS BY DIVISION

	2011 first half-year £ million	2011 second half-year £ million
Retail	1,907	1,729
Wholesale	1,199	(371)
Commercial	247	252
Wealth and International	(2,138)	(1,798)
Insurance	660	762
Group Operations and Central items:		
Group Operations	(62)	6
Central items	(709)	1,001
	(771)	1,007
Profit before tax	1,104	1,581

Banking net interest margin	2.12%	2.01%
Banking asset margin	1.54%	1.38%
Banking liability margin	0.97%	0.98%
Impairment as a % of average advances	1.77%	1.46%

CORE AND NON-CORE INCOME STATEMENT

Core	2011 £ million	2010 £ million
Net interest income	10,916	11,745
Other income	8,360	8,769
Effects of liability management, volatile items and asset sales	603	51
Total income	19,879	20,565
Insurance claims	(343)	(542)
Total income, net of insurance claims	19,536	20,023
Operating expenses	(9,369)	(9,838)
Other costs1	(313)	(46)
Trading surplus	9,854	10,139
Impairment	(2,887)	(3,612)
Share of results of joint ventures and associates	10	14
Profit before tax and fair value unwind	6,977	6,541
Fair value unwind	(628)	(389)
Profit before tax - core	6,349	6,152
Banking net interest margin	2.42%	2.48%
Impairment as a % of average advances	0.64%	0.75%
Non-core		
Net interest income	1,317	2,398
Other income	947	1,167
Effects of liability management, volatile items and asset sales	(677)	(144)
Total income	1,587	3,421
Insurance claims	-	-
Total income, net of insurance claims	1,587	3,421
Operating expenses	(884)	(1,044)
Other costs1	(55)	(150)
Trading surplus	648	2,227
Impairment	(6,900)	(9,569)
Share of results of joint ventures and associates	17	(105)
Loss before tax and fair value unwind	(6,235)	(7,447)
Fair value unwind	2,571	3,507
Loss before tax - non-core	(3,664)	(3,940)
Banking net interest margin	1.01%	1.46%
Impairment as a % of average advances	4.60%	5.56%
Profit before tax - combined businesses	2,685	2,212

1 See footnote 2 on page 14.

The basis of preparation of the core and non-core income statement is set out on the inside front cover.

Non-core portfolios consist of non-relationship assets and liabilities together with assets and liabilities which are outside the Group's current risk appetite.

SUMMARY CONSOLIDATED BALANCE SHEET

Assets	As at 31 December 2011 £ million	As at 31 December 2010 £ million
Cash and balances at central banks	60,722	38,115
Trading and other financial assets at fair value through profit or loss	139,510	156,191
Derivative financial instruments	66,013	50,777
Loans and receivables:		
Loans and advances to customers	565,638	592,597
Loans and advances to banks	32,606	30,272
Debt securities	12,470	25,735
	610,714	648,604
Available-for-sale financial assets	37,406	42,955
Held-to-maturity investments	8,098	7,905
Other assets	48,083	47,027
Total assets	970,546	991,574

Liabilities		
Deposits from banks	39,810	50,363
Customer deposits	413,906	393,633
Trading and other financial liabilities at fair value through profit or loss	24,955	26,762
Derivative financial instruments	58,212	42,158
Debt securities in issue	185,059	228,866
Liabilities arising from insurance and investment contracts	128,927	132,735
Subordinated liabilities	35,089	36,232
Other liabilities	37,994	33,923
Total liabilities	923,952	944,672
Total equity	46,594	46,902

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE

Performance in line with our expectations

The Group delivered a combined businesses profit of £2,685 million in 2011 broadly in line with our expectations despite the challenging external environment, with the core business delivering a resilient performance, and non-core results reflecting the substantial reductions in non-core assets achieved in the year. In line with our strategy, we continued to further reduce the risk in our balance sheet, strengthening our core tier 1 capital ratio, significantly

reducing non-core assets and improving our funding position.

Group income and margin reductions partially offset by lower costs and impairments

The Group's 2011 results, which are analysed below on a combined businesses basis (except where stated), were impacted by liability management, volatile items and asset sales when compared to 2010 (see page 21). Excluding these, income declined by 10 per cent, reflecting a smaller balance sheet (average interest earning assets are down 6 per cent) primarily driven by substantial reductions of non-core assets, and a net interest margin which was 14 basis points lower than in 2010. The change in margin reflected continued high funding costs, including the costs of refinancing of a significant amount of government and central bank facilities.

Costs reduced 4 per cent, driven by Integration and Simplification related savings and lower bonus accruals, partially offset by inflationary pressures, the new UK bank levy, and FSCS costs. The impairment charge reduced by 26 per cent, with lower charges seen across all divisions. These lower charges were principally supported by the continued application of our prudent risk appetite and strong risk management controls resulting in improved portfolio and new business quality, continued low interest rates, and broadly stable UK property prices, partly offset by weakening UK economic growth and rising unemployment.

Profit before tax increased by 21 per cent. Excluding the effects of liability management, volatile items and asset sales, the combined businesses profit before tax increased by 22 per cent to £2,022 million. A significant improvement in impairment was partly offset by reductions in income, principally as a result of non-core asset reductions to further strengthen the balance sheet, as well as higher funding costs.

Profit before tax included the unwind of £1,943 million of acquisition-related fair value adjustments, around £250 million lower than previously anticipated as a more cautious outlook for certain US securities resulted in the deferral of positive fair value unwind. Going forward, over the medium-term, and in line with previous guidance, declining fair value unwind benefits are expected to accrue, with the benefit expected to be approximately £0.5 billion in 2012.

The statutory loss before tax was £3,542 million in 2011 included the £3,200 million PPI provision, which is excluded from the combined businesses results, and which was taken in the first half of 2011. The statutory result also includes, amongst other things, negative insurance volatility of £838 million (2010: positive volatility of £306 million), and charges totalling £1,452 million (2010: £1,653 million), of which £1,097 million related to integration, £185 million to simplification and £170 million to the EC mandated retail business disposal costs. After a tax credit of £828 million, and after taking into account the profit attributable to non-controlling interests of £73 million, the loss attributable to equity shareholders was £2,787 million and the loss per share amounted to 4.1 pence.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Further progress in reducing the Group's risk

We continued to further reduce risk in our balance sheet, by increasing customer deposits, and by making excellent progress against our funding objectives and on the continued reduction of non-core assets, thereby achieving a substantial reduction in wholesale funding requirements. We strengthened our core tier 1 capital ratio to 10.8 per cent (31 December 2010: 10.2 per cent), largely as a result of a reduction in risk-weighted assets of £54 billion principally from the run down of higher risk non-core assets. This was partially offset by the implementation of CRD III (20 basis points) and the negative impact of the PPI provision (60 basis points).

Our loan to deposit ratio, excluding repos, improved to 135 per cent (31 December 2010: 154 per cent), and to 109 per cent in our core business (31 December 2010: 120 per cent). Customer deposits excluding repos increased by 6 per cent, reflecting good growth in relationship deposits.

Wholesale funding requirements reduced by £47 billion to £251 billion, of which £138 billion (55 per cent) including bank deposits had a maturity date of more than one year (31 December 2010: £149 billion, 50 per cent). Primary liquid assets at the year-end were £94.8 billion (31 December 2010: £97.5 billion).

We also continue to closely monitor, control and reduce our exposures to selected European countries. The Group's aggregate exposure to Greece, Ireland, Italy, Portugal and Spain totalled £25 billion, of which £16 billion relates to Ireland. Total exposure has reduced by £9 billion since 31 December 2010. Further information on our exposures to these countries, including to banking groups, asset backed securities, and corporate, retail and other exposures, is given on pages 148 to 154 of this release.

The Group made good progress against its balance sheet reduction plans in the year despite challenging market conditions. In 2011, we achieved a substantial reduction in the non-core portfolio of £53 billion, resulting in the residual portfolio at 31 December 2011 amounting to £141 billion. Notable progress was made through treasury asset reductions of £26 billion, UK commercial real estate reductions of £4.5 billion and Irish portfolio reductions of £4.9 billion. Approximately half of the reduction arose from disposals, primarily treasury assets but pleasingly we also saw gross sales of £0.9 billion in Ireland and around £1.8 billion in Australia. Asset sales overall were made broadly in line with the net book value at a Group level.

Core and non-core business performance

Detailed financial information on core and non-core business performance, including non-core asset reductions, is given on pages 85 to 94 of this release.

Our core business delivered a resilient performance given the challenging external environment. The 6 per cent decline in core income excluding liability management, volatile items and asset sales reflected subdued new lending demand and continued customer deleveraging. The effect on net interest margin of higher wholesale funding costs was mitigated by improved funding mix in the core business as a result of increased customer deposits, resulting in a small decline in net interest margin of 6 basis points.

Operating expenses and other costs in the core business fell by 2 per cent despite absorbing additional FSCS and bank levy costs. The core impairment charge reduced by 20 per cent, reflecting the general stabilisation of our portfolios, and our continued prudent risk appetite applied to new business. The 2011 core impairment charge as a percentage of average loans and advances to customers improved to 0.64 per cent. Core loans and advances to customers generated just 24 per cent of the Group's impaired loans, with a coverage ratio of 39 per cent at 31 December 2011.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Core business profit before tax was £6,349 million compared to £6,152 million in 2010. Excluding liability management, volatile items and asset sales, core business profit before tax decreased by 6 per cent, principally reflecting higher funding costs and a decline in average interest-earning assets as a result of subdued market conditions.

In the non-core business, the 54 per cent fall in income reflected the loss of income from the significant reductions achieved in the non-core portfolio, and losses on asset disposals of £677 million, including losses on treasury assets of £758 million which were largely offset by a related fair value unwind of £737 million included elsewhere in the income statement. Excluding the losses on disposals of assets, non-core income decreased by 36 per cent. Net interest margin fell 45 basis points to 1.01 per cent, principally reflecting higher wholesale funding costs, and higher levels of impaired assets.

Non-core operating expenses and other costs reduced by 21 per cent, reflecting the elimination of certain costs of supporting the non-core portfolios. The non-core impairment charge reduced, principally as a result of material reductions in the Wholesale and International impairment charges.

Non-core loans and advances to customers generated 76 per cent of the Group's impaired loans reflecting their higher risk profile, with a coverage ratio of 48 per cent at 31 December 2011.

Non-core loss before tax was £3,664 million (2010: loss before tax £3,940 million), with the improvement principally driven by reductions in impairment and costs, partly offset by lower income, and lower fair value unwind.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Income

Total income, net of insurance claims, decreased by 10 per cent to £21,123 million. The decrease includes the effect of non-core asset reductions, a number of volatile items including banking volatility, changes in the fair valuation of the equity conversion feature of the Group's enhanced capital notes (ECNs), net derivative valuation adjustments and the effect of liability management gains in 2010 and 2011 (together "effects of liability management, volatile items and asset sales").

Combined businesses results summary - income

	2011 £m	2010 £m	Change %
Total income	21,466	23,986	(11)
Insurance claims	(343)	(542)	37
Total income, net of insurance claims	21,123	23,444	(10)
Adjustments to exclude:			
Liability management gains	(1,295)	(423)	
Banking volatility	(3)	(347)	
Change in fair valuation of equity conversion feature of ECNs	5	620	
Net derivative valuation adjustments	718	42	
Gains and losses on asset sales	649	201	
	74	93	
Total income, net of insurance claims, excluding effects of liability management, volatile items and asset sales	21,197	23,537	(10)

Excluding liability management, volatile items and asset sales, total income, net of insurance claims decreased by 10 per cent, reflecting non-core asset reductions undertaken to strengthen the balance sheet, subdued lending demand, continued customer deleveraging in our core business, a lower banking net interest margin and lower treasury and trading income. The asset reductions, which resulted in losses of £649 million, were primarily non-core asset sales (including losses on treasury assets of £758 million, which were largely offset by a related fair value unwind, included elsewhere in the income statement).

	2011 £m	2010 £m	Change %
Net interest income	12,233	14,143	(14)
Other operating income	9,307	9,936	(6)

Insurance claims	(343)	(542)	37
Total income, net of insurance claims, excluding effects of liability management, volatile items and asset sales	21,197	23,537	(10)

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Net interest income

	2011 £m	2010 £m	Change %
Net interest income	12,233	14,143	(14)
Net interest margin	2.07%	2.21%	
Average interest-earning banking assets	£585.4bn	£625.9bn	(6)

Group net interest income decreased by £1,910 million, or 14 per cent, to £12,233 million in 2011. This fall primarily reflects the fall of 6 per cent in average interest earning banking assets in the year, along with the 14 basis points reduction in net interest margin.

The net interest margin in our banking businesses was 2.07 per cent, with the decline from 2.21 per cent in 2010 principally reflecting higher wholesale funding costs, higher deposit rates and the effect of refinancing a significant amount of government and central bank facilities, partially offset by an improvement in customer margins and funding mix. This fully incorporates the methodology changes outlined in our October 2011 announcement (New Allocation Methodologies for Funding Costs and Capital).

Other operating income

	2011 £m	2010 £m	Change %
Other operating income	9,307	9,936	(6)

Other operating income decreased by 6 per cent to £9,307 million. The decrease of 6 per cent reflected the targeted reduction in non-core assets, lower core new lending volumes and lower income in Treasury and Trading as a result of market conditions.

Liability management gains

Liability management gains of £1,295 million arose in 2011 on transactions undertaken as part of the Group's management of capital, primarily on the exchange of certain debt securities for other debt instruments. The gain comprises £696 million recognised in statutory net interest income, reflecting a reduction in the carrying value of certain debt securities as a result of changes in expected cash flows, and £599 million recognised in statutory other operating income relating to the debt securities exchange. The comparable gain in 2010 was £423 million and was recognised in statutory other operating income.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Comparison of fourth quarter 2011 income with third quarter 2011 income

	Three months ended 31 Dec 2011 £m	Three months ended 30 Sept 2011 £m	Change %
Total income	5,928	5,162	15
Insurance claims	(58)	(87)	33
Total income, net of insurance claims	5,870	5,075	16
Adjustments to exclude:			
Banking volatility	(35)	(145)	