Lloyds Banking Group plc
Form 6-K
August 12, 2011

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

12 AUGUST 2011

LLOYDS BANKING GROUP plc

(Translation of registrant's name into English)

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 of Form 20-F or Form 40-F.

Form 20-F S 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 S

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule12g3-2(b): 82-
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This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-167844; 333-167844-01) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

EXPLANATORY NOTE

This report on Form 6-K contains the interim report of Lloyds Banking Group plc, which includes the unaudited consolidated interim results for the half-year ended 30 June 2011, and is being incorporated by reference into the Registration Statement with File Nos. 333-167844 and 333-167844-01.

As discussed in note 59 on page F-124 of the audited consolidated financial statements included in the Group's Annual Report on Form 20-F and in note 22 on page 115 of this Form 6-K, the Group made a provision of £3,200 million in the year ended 31 December 2010 in connection with the sale of payment protection insurance. This provision was made following a UK High Court judgment handed down before the Group's Form 20-F was filed but after the approval and publication of the Group's UK annual report and accounts. In accordance with IAS 10, the provision was recorded in the Group's 2010 income statement included in the Form 20-F, whereas it has been recorded in the Group's 2011 first half results for UK reporting purposes.

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the half-year ended 30 June 2011.

Statutory basis
Statutory results are set out on pages 88 to 135 and discussed on pages 2 to 4. 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 interim results with 2010 is of reduced benefit.

Combined businesses basis
In order to provide more meaningful and relevant comparatives, the results of the Group are also 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 the business performance the following items, not related to acquisition accounting, have also been excluded:

  – integration costs;
  – volatility arising in insurance businesses;
  – curtailment gains and losses in respect of the Group's defined benefit pension schemes;
  – customer goodwill payments provision;
  – payment protection insurance provision;
  – sale costs in respect of the EU mandated retail business disposal; and
  – loss on disposal of businesses.

Unless otherwise stated income statement commentaries throughout this document compare the half-year to 30 June 2011 to the half-year to 30 June 2010, and the balance sheet analysis compares the Group balance sheet as at 30 June 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, as well as the ability to integrate successfully the acquisition of HBOS; 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; 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 such 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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LLOYDS BANKING GROUP PLC

SUMMARY OF RESULTS (UNAUDITED)

Results	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Statutory (IFRS)				
Total income, net of insurance claims	10,854	12,591	(14)	12,365
Total operating expenses	(6,428)	(5,811)	(11)	(10,659)
Trading surplus	4,426	6,780	(35)	1,706
Impairment	(4,491)	(5,423)	17	(5,529)
(Loss) profit before tax	(51)	1,296		(4,215)
Profit (loss) attributable to equity shareholders	31	596		(3,252)
Earnings (loss) per share	0.0p	0.9p		(4.8)p
Combined businesses basis (note 1, page 43)				
Total income, net of insurance claims	10,178	12,481	(18)	10,963
Operating expenses1	(5,332)	(5,435)	2	(5,493)
Trading surplus	4,846	6,896	(30)	5,470
Impairment	(5,422)	(6,554)	17	(6,627)
Profit before tax	1,104	1,603	(31)	609

1 Excluding impairment of tangible fixed assets of £150 million in the half-year to 30 June 2010.

Capital and balance sheet	As at 30 June 2011	As at 31 Dec 2010	Change since 31 Dec 2010 %
Statutory (IFRS)			
Loans and advances to customers1	£587.8bn	£592.6bn	(1)
Customer deposits2	£399.9bn	£393.6bn	2
Loan to deposit ratio3	144%	154%	
Risk-weighted assets	£383.3bn	£406.4bn	(6)
Core tier 1 capital ratio	10.1%	9.6%	

1 Includes reverse repos of £19.7 billion (31 December 2010: £3.1 billion).
2 Includes repos of £5.0 billion (31 December 2010: £11.1 billion).
3 Excludes repos of £5.0 billion (31 December 2010: £11.1 billion) and reverse repos of £19.7 billion (31 December 2010: £3.1 billion).

LLOYDS BANKING GROUP PLC

STATUTORY INFORMATION (IFRS)

GROUP PERFORMANCE (UNAUDITED)
(STATUTORY BASIS – IFRS)

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Interest and similar income	13,437	14,661	14,679
Interest and similar expense	(7,448)	(7,623)	(9,171)
Net interest income	5,989	7,038	5,508
Fee and commission income	2,153	2,219	2,196
Fee and commission expense	(690)	(812)	(870)
Net fee and commission income	1,463	1,407	1,326
Net trading income	3,118	1,245	14,479
Insurance premium income	4,125	4,300	3,848
Other operating income	1,508	1,790	2,526
Other income	10,214	8,742	22,179
Total income	16,203	15,780	27,687
Insurance claims	(5,349)	(3,189)	(15,322)
Total income, net of insurance claims	10,854	12,591	12,365
Payment protection insurance provision	–	–	(3,200)
Other operating expenses	(6,428)	(5,811)	(7,459)
Total operating expenses	(6,428)	(5,811)	(10,659)
Trading surplus	4,426	6,780	1,706
Impairment	(4,491)	(5,423)	(5,529)
Share of results of joint ventures and associates	14	(61)	(27)
Loss on disposal of businesses	–	–	(365)
(Loss) profit before tax	(51)	1,296	(4,215)
Taxation	109	(630)	955
Profit (loss) for the period	58	666	(3,260)

Review of results

The consolidated income statement shows a loss before tax of £51 million for the half-year to 30 June 2011. This compares to a profit before tax of £1,296 million for the half-year to 30 June 2010; however, the results for the half-year to 30 June 2010 included a pension curtailment credit in relation to the Group's defined benefit pension schemes of £1,019 million and liability management gains of £423 million which were not repeated in the half-year to 30 June 2011. The Group reported a loss before tax of £4,215 million in the half-year to 31 December 2010 as a result of the payment protection insurance provision of £3,200 million, the customer goodwill payments provision of £500 million and a loss on disposal of businesses of £365 million.

Net interest income decreased by £1,049 million, or 15 per cent, from £7,038 million to £5,989 million in the half-year to 30 June 2011, reflecting lower interest-earning asset balances across loans and receivables together with a reduced net interest margin as a result of continued high wholesale funding costs, a competitive deposit market and the effect of refinancing a significant amount of government and central bank facilities. In addition, net interest income was reduced by a £388 million increase in the amount payable to unit holders in those Open-Ended

Investment Companies included in the consolidated results of the Group.

LLOYDS BANKING GROUP PLC

Review of results (continued)

Other income increased by £1,472 million, or 17 per cent, to £10,214 million in the half-year to 30 June 2011 compared to £8,742 million, due to higher levels of net trading income arising from increases in the value of assets held to support insurance and investment contracts (although this is largely matched by an increase in the related claims expense), partly offset by a £428 million adverse movement in the mark-to-market adjustment arising from the equity conversion feature of the Group's enhanced capital notes and the non-recurrence of the £423 million of gains on liability management transactions which arose in the half-year to 30 June 2010.

Overall total income increased by £423 million, or 3 per cent, from £15,780 million in the half-year to 30 June 2010 to £16,203 million in the half-year to 30 June 2011.

Insurance claims increased by £2,160 million, or 68 per cent, to £5,349 million in the half-year to 30 June 2011 compared to £3,189 million in the half-year to 30 June 2010, reflecting the increase in liabilities to policyholders as a result of gains on policyholder investments in the long-term insurance business.

Operating expenses increased by £617 million, or 11 per cent, to £6,428 million in the half-year to 30 June 2011 compared to £5,811 million in the half-year to 30 June 2010. Adjusting for the £1,019 million pension curtailment gain in 2010 which was not repeated in 2011, costs were £402 million lower. The Group continues to benefit from cost synergies as a result of the on-going integration of the Lloyds TSB and HBOS businesses. Staff costs excluding the curtailment gain were £140 million lower, in part due to the closure of the Group's operations in Ireland; depreciation and amortisation was £116 million lower, following a reduction in operating lease assets; and there was a £137 million reduction in the charge for the impairment of tangible fixed assets.

Impairment losses decreased by £932 million, or 17 per cent, from £5,423 million in the half-year to 30 June 2010 to £4,491 million in the half-year to 30 June 2011, reflecting improved credit quality experience in both Retail and Wholesale, partly offset by increased impairments in Ireland and Australia. The improvement in Retail was driven by the unsecured portfolio and reflects risk management initiatives, improved business quality and a stabilising economy. The improvement in Wholesale reflected lower impairments in the former HBOS corporate real estate and real estate-related portfolios, the stabilising UK and US economies in 2010 and the continuing low interest rate environment in 2011. The increased charges in Ireland reflect the fact that the Group has allowed for a greater than previously anticipated fall in commercial real estate prices. In Australasia, although economic performance has been robust overall, the Group's portfolio has significant geographical and sector concentrations and these assets continue to be a concern.

The taxation credit of £109 million on a loss before tax of £51 million reflects adjustments in respect of policyholder interests and the benefit of deferred tax assets not previously recognised, in respect of tax losses, more than offsetting the charge arising from the reduction of the Group's deferred tax asset as a consequence of the decrease in the main rate of UK corporation tax to 26 per cent.

Total assets have decreased by £13,487 million, or 1 per cent, from £992,438 million at 31 December 2010 to £978,951 million at 30 June 2011 reflecting the Group's balance sheet reduction plans. However, in the Merlin agreement with the UK Government, the Group and four other major UK banks announced in February the intention to enhance support for the UK economic recovery by delivering increased gross business lending in 2011 compared to 2010. The Merlin banks further agreed to provide the capacity to support additional gross new lending of up to £190 billion to creditworthy UK businesses, including £76 billion for SMEs, if sufficient demand emerges. Based on performance in the first half of 2011, the Group is on track to deliver its full year contribution to the Merlin lending agreement, subject to sufficient demand for finance being maintained in the current economic climate. The Group actively looks at all opportunities to support UK businesses and continues to innovate in the market to meet its customers' needs.

Customer deposits increased by £6,286 million, or 2 per cent, from £393,633 million at 31 December 2010 to £399,919 million at 30 June 2011 as a result of deposit-raising initiatives, including continued strong deposit inflows in the Group's Wealth and International online deposit business.

LLOYDS BANKING GROUP PLC

Review of results (continued)

Shareholders' equity increased by £1,184 million, or 3 per cent, to £44,909 million at 30 June 2011 compared to £43,725 million at 31 December 2010 mainly as a result of increases in the available-for-sale and cash flow hedging reserves. The Group's total capital ratio was 15.0 per cent (31 December 2010: 14.5 per cent) with a tier 1 capital ratio of 11.6 per cent (31 December 2010: 11.0 per cent) and a core tier 1 capital ratio of 10.1 per cent (31 December 2010: 9.6 per cent); the Group's capital base was little changed over the half-year and the improved capital ratios are mainly due to decreases in risk-weighted assets.

LLOYDS BANKING GROUP PLC

SEGMENTAL ANALYSIS OF PROFIT BEFORE TAX BY DIVISION (UNAUDITED)
(COMBINED BUSINESSES BASIS)

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Retail	2,200	2,495	2,221
Wholesale1	1,429	585	2,333
Commercial1	262	157	182
Wealth and International	(2,080)	(1,609)	(3,215)
Insurance	543	469	633
Group Operations and Central items:			
Group Operations	(62)	(56)	(7)
Central items	(1,188)	(438)	(1,538)
	(1,250)	(494)	(1,545)
Profit before tax	1,104	1,603	609

1 Given the importance of the Group's role in the UK's economic recovery through actively supporting SME lending, the Group is now reporting Commercial separately. Commercial comprises the Group's SME business and was previously part of Wholesale. Comparatives have been restated accordingly.

The basis of preparation of the Group's segmental results is set out in note 1 on page 43.

The Group Executive Committee (GEC), which is the chief operating decision maker for the Group, reviews the Group's internal reporting based around these segments (which reflect the Group's organisational and management structures) in order to assess the performance and allocate resources; this reporting is on a combined businesses basis, which the GEC believes best represents the underlying performance of the Group. These combined businesses segmental results for the periods shown above are therefore presented in compliance with IFRS 8 Operating Segments. However, the aggregate total of the combined businesses segmental results constitutes a non-GAAP measure as defined in the United States Securities and Exchange Commission's Regulation G and a reconciliation of the aggregated total to the statutory consolidated IFRS income statement is therefore provided in note 1 on page 44.

To enable meaningful comparisons to be made with prior periods, the income statement commentaries in the following pages are on a combined businesses basis (see 'basis of preparation'). Certain commentaries also exclude the unwind of fair value adjustments.

Management uses the aggregated total of the combined businesses segmental results, a non-GAAP measure, as a measure of performance and believes that it provides important information for investors because it is a comparable representation of the Group's performance. Profit before tax is the comparable GAAP measure to profit before tax on a combined businesses basis; a reconciliation of the Group's statutory consolidated IFRS income statement to its combined businesses income statement is shown in note 1 on page 44. Readers should be aware that the combined businesses basis excludes certain items, as indicated in the tables in note 1, reflected in the Group's statutory consolidated IFRS results.

LLOYDS BANKING GROUP PLC

RECONCILIATION OF COMBINED BUSINESSES PROFIT BEFORE TAX TO STATUTORY (IFRS) (LOSS) PROFIT BEFORE TAX FOR THE HALF-YEAR (UNAUDITED)

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Profit before tax – combined businesses	1,104	1,603	609
Integration costs	(642)	(804)	(849)
Volatility arising in insurance businesses (note 5, page 49)	(177)	(199)	505
Amortisation of purchased intangibles	(289)	(323)	(306)
Customer goodwill payments provision	–	–	(500)
Pension curtailment gain (loss) (note 4, page 103)	–	1,019	(109)
Payment protection insurance provision (note 22, page 115)	–	–	(3,200)
EU mandated retail business disposal costs	(47)	–	–
Loss on disposal of businesses	–	–	(365)
(Loss) profit before tax – statutory	(51)	1,296	(4,215)

LLOYDS BANKING GROUP PLC

SEGMENTAL ANALYSIS BY DIVISION (UNAUDITED)
(COMBINED BUSINESSES BASIS)

Half-year to 30 June 2011	Retail £m	Wholesale £m	Commercial £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	4,163	1,401	649	509	(142)	(202)	6,378
Other income	884	1,337	218	631	1,319	(391)	3,998
Total income	5,047	2,738	867	1,140	1,177	(593)	10,376
Insurance claims	–	–	–	–	(198)	–	(198)
Total income, net of insurance claims	5,047	2,738	867	1,140	979	(593)	10,178
Operating expenses	(2,221)	(1,312)	(471)	(792)	(415)	(121)	(5,332)
Trading surplus	2,826	1,426	396	348	564	(714)	4,846
Impairment	(1,173)	(1,557)	(160)	(2,532)	–	–	(5,422)
Share of results of joint ventures and associates	3	9	–	–	–	–	12
Profit (loss) before tax and fair value unwind	1,656	(122)	236	(2,184)	564	(714)	(564)
Fair value unwind1	544	1,551	26	104	(21)	(536)	1,668
Profit (loss) before tax	2,200	1,429	262	(2,080)	543	(1,250)	1,104
Banking net interest margin2	2.26%	1.64%	4.35%	1.47%			2.07%
Cost:income ratio3	44.0%	47.9%	54.3%	69.5%	42.4%		52.4%
Impairment as a % of average advances (annualised)4	0.65%	2.02%	1.07%	7.89%			1.77%

Key balance sheet and other items As at 30 June 2011	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	357.8	149.8	28.7	51.1		0.4	587.8
Customer deposits	242.3	85.0	32.7	38.9		1.0	399.9
Risk-weighted assets	109.6	176.6	26.8	56.4		13.9	383.3

1 The net credit in the first half of 2011 of £1,668 million is mainly attributable to a reduction in the impairment charge of £931 million as losses reflected in the acquisition balance sheet

valuations of the lending and securities portfolios have been incurred.

2 The calculation basis for banking net interest margins is set out in note 2 on page 46.

3 Operating expenses divided by total income net of insurance claims.

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

LLOYDS BANKING GROUP PLC

SEGMENTAL ANALYSIS BY DIVISION (UNAUDITED) (continued)
(COMBINED BUSINESSES BASIS)

Half-year to 30 June 2010	Retail	Wholesale	Commercial	Wealth and Int'l	Insurance	Group Operations and Central items	Group
	£m	£m	£m	£m	£m	£m	£m
Net interest income	4,636	1,576	571	596	(136)	(332)	6,911
Other income	836	1,988	227	605	1,320	855	5,831
Total income	5,472	3,564	798	1,201	1,184	523	12,742
Insurance claims	–	–	–	–	(261)	–	(261)
Total income, net of insurance claims	5,472	3,564	798	1,201	923	523	12,481
Costs:							
Operating expenses	(2,233)	(1,401)	(481)	(744)	(423)	(153)	(5,435)
Impairment of tangible fixed assets	–	(150)	–	–	–	–	(150)
	(2,233)	(1,551)	(481)	(744)	(423)	(153)	(5,585)
Trading surplus	3,239	2,013	317	457	500	370	6,896
Impairment	(1,335)	(2,801)	(190)	(2,228)	–	–	(6,554)
Share of results of joint ventures and associates	8	(60)	–	(2)	(10)	2	(62)
Profit (loss) before tax and fair value unwind	1,912	(848)	127	(1,773)	490	372	280
Fair value unwind	583	1,433	30	164	(21)	(866)	1,323
Profit (loss) before tax	2,495	585	157	(1,609)	469	(494)	1,603
Banking net interest margin	2.44%	1.51%	3.82%	1.65%			2.08%
Cost:income ratio	40.8%	39.3%	60.3%	61.9%	45.8%		43.5%
Impairment as a % of average advances (annualised)	0.72%	3.11%	1.28%	6.56%			2.01%

Key balance sheet and other items As at 30 June 2010	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	368.0	155.9	28.7	57.6		1.9	612.1
Customer deposits	230.7	128.4	30.8	30.3		0.2	420.4
Risk-weighted assets	106.8	251.5	29.2	59.3		16.4	463.2

LLOYDS BANKING GROUP PLC

SEGMENTAL ANALYSIS BY DIVISION (UNAUDITED) (continued)
(COMBINED BUSINESSES BASIS)

Half-year to 31 Dec 2010	Retail £m	Wholesale £m	Commercial £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	4,742	1,675	604	580	(127)	(563)	6,911
Other income	771	1,691	230	555	1,494	(408)	4,333
Total income	5,513	3,366	834	1,135	1,367	(971)	11,244
Insurance claims	–	–	–	–	(281)	–	(281)
Total income, net of insurance claims	5,513	3,366	834	1,135	1,086	(971)	10,963
Operating expenses	(2,411)	(1,351)	(511)	(792)	(431)	3	(5,493)
Trading surplus	3,102	2,015	323	343	655	(968)	5,470
Impairment	(1,412)	(1,263)	(192)	(3,760)	–	–	(6,627)
Share of results of joint ventures and associates	9	(35)	–	(6)	–	3	(29)
Profit (loss) before tax and fair value unwind	1,699	717	131	(3,423)	655	(965)	(1,186)
Fair value unwind	522	1,616	51	208	(22)	(580)	1,795
Profit (loss) before tax	2,221	2,333	182	(3,215)	633	(1,545)	609
Banking net interest margin	2.49%	1.54%	3.93%	1.61%			2.12%
Cost:income ratio	43.7%	40.1%	61.3%	69.8%	39.7%		50.1%
Impairment as a % of average advances (annualised)	0.76%	1.31%	1.19%	11.29%			2.02%

Key balance sheet and other items As at 31 December 2010	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	363.7	144.6	28.6	55.3		0.4	592.6
Customer deposits	235.6	93.0	31.3	32.8		0.9	393.6
Risk-weighted assets	109.3	196.1	26.6	58.7		15.7	406.4

LLOYDS BANKING GROUP PLC

GROUP PERFORMANCE (UNAUDITED)
(COMBINED BUSINESSES BASIS)

The discussion below is on a combined businesses basis (see basis of preparation).

Profit before tax on a combined businesses basis was £499 million, or 31 per cent, lower at £1,104 million in the half-year to 30 June 2011 compared to £1,603 million in the half-year to 30 June 2010. This reflected the absence in 2011 of £423 million of gains from liability management exercises which had benefited the first half of 2010, and £236 million of mark-to-market losses arising from the equity conversion feature of the Group's Enhanced Capital Notes in the first half of 2011, compared to gains of £192 million in the first half of 2010.

Net interest income was £533 million, or 8 per cent, lower at £6,378 million in the half-year to 30 June 2011 compared to £6,911 million in the half-year to 30 June 2010, as a result of a reduction in interest-earning assets as the Group's targeted balance sheet reduction takes effect as well as subdued lending demand and continued customer deleveraging, continued high wholesale funding costs, a competitive deposit market and the effect of refinancing a significant amount of government and central bank facilities.

Other income was £1,833 million, or 31 per cent, lower at £3,998 million in the half-year to 30 June 2011 compared to £5,831 million in the half-year to 30 June 2010. However, other income in the half-year to 30 June 2011 included losses on sale of treasury assets, as part of the Group's targeted balance sheet reduction (although there is little impact on profit before tax, since these losses were largely offset by an accelerated fair value unwind) and £236 million of mark-to-market losses arising from the equity conversion feature of the Group's Enhanced Capital Notes; whereas there were mark-to-market gains on the equity conversion feature of £192 million in the half-year to 30 June 2010 as well as gains of £423 million from liability management exercises, which were not repeated in 2011.

Insurance claims were £63 million, or 24 per cent, lower at £198 million in the half-year to 30 June 2011 compared to £261 million in the half-year to 30 June 2010 mainly reflecting lower unemployment claims combined with favourable experiene on the home book as the freeze events in January 2011 were less severe than those of January 2010.

Costs were £253 million, or 5 per cent, lower at £5,332 million in the half-year to 30 June 2011 compared to £5,585 million in the half-year to 30 June 2010. This reduction reflects the absence in the half-year to 30 June 2011 of the £150 million charge in relation to impairment of tangible fixed assets incurred in 2010, together with further integration-related savings and lower levels of operating lease depreciation in Wholesale, partially offset by increased employers' National Insurance contributions, and higher sales tax, inflation and other costs

The impairment charge was £1,132 million, or 17 per cent, lower at £5,422 million in the half-year to 30 June 2011 compared to £6,554 million in the half-year to 30 June 2010, with higher charges in Ireland and Australasia more than offset by improvements elsewhere in the Group, particularly the substantial fall in the Wholesale division's impairment charge compared to the first half of 2010.

Retail's impairment charge reduced by 12 per cent, driven by the unsecured portfolio, supported by prudent risk management, improved business quality, and a stabilising economy.

The Wholesale impairment charge reduced from £2,801 million in the first half of 2010 to £1,557 million in the first half of 2011. The decrease in this period has continued to be primarily driven by lower impairment from the HBOS heritage corporate real estate and real estate related asset portfolios, together with the stabilising UK and US economic environment in 2010 and so far in 2011 a low interest rate environment helping to maintain defaults at a relatively lower level. This was partly offset by increased impairment on leveraged acquisition finance exposures.

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The Commercial impairment charge reduced from £190 million in the first half of 2010 to £160 million in the first half of 2011, due to an increase in the overall quality of the portfolio and the stabilisation of the UK economy.

In Wealth and International, impairment charges totalled £2,532 million, an increase of 14 per cent from £2,228 million in the first half of 2010. This was predominantly as a result of our Irish portfolio where the Group has allowed for further falls in commercial real estate prices, as well as weakness in the Australasian portfolio, where the Group has significant geographical and sector concentrations; the Group also took a charge of £70 million in the first half of 2011 as a result of losses arising from the earthquake in New Zealand.

The share of results of joint ventures and associates was a credit of £12 million in the half-year to 30 June 2011 compared to a loss of £62 million in the half-year to 30 June 2010.

The fair value unwind was £345 million, or 26 per cent, higher at £1,668 million in the half-year to 30 June 2011 compared to £1,323 million in the half-year to 30 June 2010. This principally reflected an accelerated fair value unwind of £649 million in relation to the treasury asset sales, partly offset by a reduced credit to the impairment charge due to lower impairment charges on the heritage HBOS Wholesale portfolios.

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DIVISIONAL PERFORMANCE (UNAUDITED)

RETAIL

Key highlights

- Profit before tax decreased to £2,200 million, compared to £2,495 million in the first half of 2010.

- Profit before tax and fair value unwind was £1,656 million, a reduction of 13 per cent compared with the first half of 2010, driven by higher funding costs and muted demand for credit.

- Total income decreased by 8 per cent, driven by lower net interest income, largely as a result of higher funding costs, muted demand for credit, the continued impact from previous de-risking of the lending portfolio with a corresponding reduction in impairments and increased competition for deposits while we continued to reduce our funding gap.

- Operating expenses reduced by 1 per cent compared with the first half of 2010. However the cost:income ratio increased to 44.0 per cent, as a result of the reduction in income. Operating expenses benefited from cost synergies partly offset by investment in our digital platforms, improvements to complaints handling processes and inflation.

- The impairment charge reduced to £1,173 million, down by 12 per cent, particularly driven by the reduction in the unsecured charge reflecting the impact of the Group’s prudent risk appetite with improved new business quality and effective portfolio management. Credit performance across the business also continues to be supported by the Group’s risk management processes, a continued subdued UK economic recovery and low interest rates.

- Customer deposit growth continued during the first half of 2011, with balances increasing by £6.7 billion, or 3 per cent, from 31 December 2010. This growth was largely driven by strong UK tax-free cash Individual Savings Account (ISA) balance growth where Retail achieved growth greater than its share of balances outstanding.

- Loans and advances to customers decreased by £5.9 billion, or 2 per cent, from 31 December 2010 as customers continued to reduce their personal indebtedness. In particular, customers continued to pay down unsecured debts. In the first half of 2011 gross mortgage lending was £12.9 billion, which was equivalent to a market share of over 20 per cent, as Retail continued to support the housing market and first time buyers.

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RETAIL (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	4,163	4,636	(10)	4,742
Other income	884	836	6	771
Total income	5,047	5,472	(8)	5,513
Operating expenses	(2,221)	(2,233)	1	(2,411)
Trading surplus	2,826	3,239	(13)	3,102
Impairment	(1,173)	(1,335)	12	(1,412)
Share of results of joint ventures and associates	3	8	(63)	9
Profit before tax and fair value unwind	1,656	1,912	(13)	1,699
Fair value unwind	544	583	(7)	522
Profit before tax	2,200	2,495	(12)	2,221
Banking net interest margin	2.26%	2.44%		2.49%
Cost:income ratio	44.0%	40.8%		43.7%
Impairment as a % of average advances (annualised)	0.65%	0.72%		0.76%

	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers			
Secured	333.1	337.3	(1)
Unsecured	24.7	26.4	(6)
	357.8	363.7	(2)
Customer deposits			
Savings	202.3	195.3	4
Current accounts	40.0	40.3	(1)
	242.3	235.6	3
Total customer balances	600.1	599.3	
Risk-weighted assets	109.6	109.3	

LLOYDS BANKING GROUP PLC

RETAIL (continued)

Financial performance
Profit before tax decreased to £2,200 million compared to £2,495 million in the first half of 2010, a reduction of £295 million.

Profit before tax and fair value unwind decreased to £1,656 million, a reduction of 13 per cent compared with the first half of 2010, driven by higher funding costs and the muted demand for credit.

Total income decreased by £425 million, or 8 per cent, to £5,047 million. This was driven by a reduction in net interest income of £473 million, partially offset by an increase in other income of £48 million.

Net interest income reduced by 10 per cent when compared with the first half of 2010. One of the main drivers was the increase in wholesale funding costs which were not matched by average customer rates, particularly as mortgage standard variable rates remained constant over the period. Income growth was also constrained by muted demand for both secured and unsecured credit. Previous de-risking of the lending portfolio, with a relative reduction in unsecured balances, also contributed to the reduction in income albeit with a corresponding reduction in impairment. Finally, increased competition for deposits resulted in an increase in the average rate paid on customer deposits while the Group continued to reduce its reliance on wholesale funding.

Other income increased by 6 per cent in the first half of 2011 to £884 million from £836 million largely as a result of the sale of Visa Inc shares which resulted in a profit of £41 million in the first half 2011.

Total income is analysed as follows and reflects the trends discussed above:

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Mortgages and Savings	2,151	2,294	(6)	2,445
Consumer Banking	2,896	3,178	(9)	3,068
Total income	5,047	5,472	(8)	5,513

Operating expenses fell by 1 per cent compared with the first half of 2010 (8 per cent compared with the second half of 2010) and the cost:income ratio was 44.0 per cent. Operating expenses benefited from cost synergies partly offset by investment in our digital platforms, improvements to the complaints handling processes and inflation. During the first half of the year Retail successfully completed the consolidation of the branch counters and the ATM network onto one IT system significantly simplifying its infrastructure.

The impairment charge on loans and advances decreased by £162 million, or 12 per cent, to £1,173 million largely driven by reductions in the unsecured charge (when compared to the second half of 2010 the reduction was £239 million, or 17 per cent). The unsecured impairment charge reduced to £878 million from £1,282 million in the first half of 2010 reflecting the impact of the Group's prudent risk appetite with improved new business quality, effective portfolio management and a reduction in unsecured balances. Credit performance across the business also continued to be supported by the Group's risk management processes, a continued subdued economic recovery in the UK and low interest rates. The secured impairment charge increased to £295 million from £53 million in the first half of 2010 largely reflecting a less favourable outlook for house prices compared with the Group's outlook at the end of the first half of 2010.

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RETAIL (continued)

The fair value unwind net credit of £544 million compared with £583 million in the first half of 2010. The net impact of the unwind was slightly smaller than in the first half of 2010. This reflected a lower net credit related to the mortgage portfolios as fewer mortgages reached the end of their product term and moved to standard variable rate products, which was broadly offset by an increase in the impairment unwind which resulted from the higher secured impairment charge.

Balance sheet progress

Total loans and advances to customers decreased by £5.9 billion, or 2 per cent, to £357.8 billion, compared to 31 December 2010. This was driven by reduced customer demand for new credit and existing customers continuing to reduce their personal indebtedness. The reduction in lending to customers was in part due to the repayment of unsecured debt where balances reduced by £1.7 billion, or 6 per cent. Secured balances reduced by £4.2 billion, or 1 per cent. The proportion of mortgages on standard variable rate, or equivalent products, now stands at 52 per cent and is expected to rise only modestly during the remainder of 2011.

The UK mortgage market for both house purchase and re-mortgaging in the first half of 2011 was broadly flat compared with the first half of 2010, with gross market lending of £64.0 billion compared to £64.1 billion, respectively. Retail's gross mortgage lending was £12.9 billion in the first half of 2011. Retail's new mortgage lending continued to be focused on supporting the housing market with 70 per cent of lending being for house purchase rather than re-mortgaging. Retail remains the largest lender to UK first time buyers, helping over 24,000 customers buy their first home in the first half of 2011.

During the first half of 2011 Retail continued to develop its mortgage offering to support customers. This included rolling out a new mortgage sales platform that has improved the processing of mortgage applications and significantly simplified the mortgage application process for both customers and advisors. In addition, it ensures that customer data only needs to be entered onto one system, so reducing the potential for error. Retail has also further developed its products including the Lend a Hand mortgage, which now allows local authorities to act as the 'helper' and enables first-time buyers to get onto the housing ladder with just a 5 per cent deposit.

Risk-weighted assets increased by £0.3 billion to £109.6 billion compared to 31 December 2010. This reflected the impact of lower lending balances being offset by the impact of a less favourable outlook for house prices compared with the end of 2010.

Total customer deposits increased by £6.7 billion, or 3 per cent, to £242.3 billion in the first six months of 2011. This increase was largely driven by strong growth in tax free cash ISA balances. Retail continues to perform well in the savings market despite the high levels of competition, with a strong stable of savings brands providing customers with a range of products to meet their savings needs.

LLOYDS BANKING GROUP PLC

WHOLESALE

Key highlights

- Profit before tax was £1,429 million compared to a profit before tax of £585 million in the first half of 2010.

- Loss before tax and fair value unwind was £122 million, an improvement of £726 million mainly reflecting significantly decreased impairments and lower costs, offset by reduced income.

- Net interest income decreased by 11 per cent to £1,401 million. This largely reflects a lower asset balance sheet. The banking net interest margin improved from 1.51 per cent in the first half of 2010 to 1.64 per cent in the first half of 2011.

- Other income decreased to £1,337 million, as targeted balance sheet reductions resulted in losses of £670 million on treasury asset sales within Corporate Markets, broadly offset by a related accelerated fair value unwind of £649 million, and a lower level of operating lease asset income in Asset Finance.

- Operating expenses decreased by 6 per cent to £1,312 million, reflecting reduced levels of operating lease depreciation and further cost savings achieved from the integration programme, partially offset by additional staff related costs in Corporate Markets and continued investment in customer facing resource and systems.

- Impairment charges decreased significantly to £1,557 million, compared to £2,801 million in the first half of 2010. The total impairment charge is 44 per cent lower than the first half of last year and continues to be driven by the HBOS heritage corporate real estate and real estate related asset portfolios, but with increased impairment on leveraged acquisition finance exposures.

- Customer deposits excluding repos decreased 2 per cent, since 31 December 2010, to £81.0 billion as a small increase in deposits in Corporate Markets was more than offset by a decline in more price sensitive deposits in Treasury and Trading.

- Risk-weighted assets reduced by £19.5 billion to £176.6 billion compared to December 2010, in line with the reduction on the balance sheet.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	1,401	1,576	(11)	1,675
Other income	1,337	1,988	(33)	1,691
Total income	2,738	3,564	(23)	3,366
Costs:				
Operating expenses	(1,312)	(1,401)	6	(1,351)
Impairment of tangible fixed assets	–	(150)		–
	(1,312)	(1,551)	15	(1,351)
Trading surplus	1,426	2,013	(29)	2,015
Impairment	(1,557)	(2,801)	44	(1,263)
Share of results of joint ventures and associates	9	(60)		(35)
(Loss) profit before tax and fair value unwind	(122)	(848)	86	717
Fair value unwind	1,551	1,433	8	1,616
Profit before tax	1,429	585		2,333
Corporate Markets	(527)	(1,212)		257
Treasury and Trading	255	259		169
Asset Finance	150	105		291
(Loss) profit before tax and fair value unwind	(122)	(848)		717
Banking net interest margin	1.64%	1.51%		1.54%
Cost:income ratio (excl. impairment of tangible fixed assets)	47.9%	39.3%		40.1%
Impairment as a % of average advances (annualised)	2.02%	3.11%		1.31%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers excl reverse repos	130.1	141.5	(8)
Reverse repos	19.7	3.1	
Loans and advances to customers	149.8	144.6	4
Loans and advances to banks	10.2	12.4	(18)
Debt securities	15.5	25.8	(40)
Available-for-sale financial assets	16.7	29.5	(43)
	192.2	212.3	(9)

Customer deposits excluding repos	81.0	82.8	(2	)
Repos	4.0	10.2		
Customer deposits including repos	85.0	93.0	(9	)
Risk-weighted assets	176.6	196.1	(10	)

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LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Financial performance

Profit before tax was £1,429 million compared to a profit before tax of £585 million in the first half of 2010. A reduction of £826 million in total income was more than offset by a significant decrease in the impairment charge which reduced by £1,244 million to £1,557 million, reflecting the stabilising UK economic climate.

Loss before tax and fair value unwind of £122 million improved £726 million on the loss of £848 million in the first half of 2010, primarily driven by the significant decrease in the impairment charge.

Total income decreased by £826 million, or 23 per cent, to £2,738 million, mainly driven by a 33 per cent decrease in other operating income. This was primarily a result of the £670 million loss on disposal of treasury assets, which was broadly offset by a related accelerated fair value unwind of £649 million.

Net interest income decreased by £175 million, or 11 per cent, to £1,401 million. The decrease reflects lower interest-earning asset balances in line with the Group's targeted balance sheet reduction, mainly in loans and advances to customers, debt securities and available-for-sale financial asset positions. This was offset by a 13 basis points increase in banking net interest margin.

Banking net interest income, which excludes trading activity, decreasing by £105 million, to £1,179 million primarily as a result of a reduced balance sheet. However, this income reduction was partly offset by an increase in deposit margins and income. Asset margins decreased as the benefit of higher customer rates was offset by the increased cost of funding.

Other income decreased by £651 million, or 33 per cent, to £1,337 million, primarily reflecting the effect of the asset disposals from the Group's targeted balance sheet reduction in Corporate Markets, and a lower asset base and associated income in Asset Finance. This was partially offset by valuation gains and profits on disposals in the Equity business within Corporate Markets and the recovery of assets previously written down in Treasury and Trading.

Operating expenses decreased by £89 million, or 6 per cent, to £1,312 million primarily from a reduction in the level of operating lease depreciation in Asset Finance and a continued focus on cost management including savings attributable to the integration programme. This was partially offset by additional staff costs and continued investment in customer facing resource and systems.

The impairment charge decreased by £1,244 million to £1,557 million in the first half of 2011, reflecting a sustained decrease since the peak in the first half 2009. As a percentage of average loans and advances to customers, the impairment charge improved to 2.02 per cent in the first half of 2011 compared to 3.11 per cent in the first half of 2010. This was due to the stabilising economic environment, continued low interest rates which helped to maintain defaults at a reduced level, and the stabilisation of corporate real estate prices.

The share of results from joint ventures and associates comprised a small profit of £9 million, an improvement of £69 million, due to a lower level of impairments and share of losses than in the previous year.

Fair value unwind increased £118 million to £1,551 million, mainly due to asset disposals (including treasury asset disposals) and favourable exchange rate movements. This was partially offset by a decrease in the fair value unwind relating to HBOS loans and receivables that were acquired on acquisition, reflecting lower impairments.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Balance sheet progress

The division's asset balances (comprising loans and advances to customers and banks, debt securities and available-for-sale financial assets) reduced by £20.1 billion, or 9 per cent, to £192.2 billion, primarily reflecting deleveraging by customers and continuing active de-risking of the balance sheet by either selling down or reducing holdings in debt securities and available-for-sale positions, offset by an increase in reverse repo balances as liquidity was invested in high quality primary liquid assets on a secured basis.

Loans and advances to customers increased £5.2 billion, or 4 per cent to £149.8 billion. In Corporate Markets, balances decreased by £10.0 billion, or 8 per cent, as demand for new corporate lending and refinancing of existing facilities were more than offset by the level of maturities, reflecting a continued trend of subdued corporate lending, customer deleveraging and asset sales in non-core sectors. Available-for-sale financial asset balances reduced by £12.8 billion, or 43 per cent, to £16.7 billion and debt securities decreased by £10.3 billion, or 40 per cent, to £15.5 billion, as Corporate Markets reduced its balance sheet through treasury and other asset sales or not replenishing holdings after amortisations or maturities. Loans and advances to banks decreased by £2.2 billion, or 18 per cent, as the division refocused the balance sheet.

Customer deposits excluding repos decreased by 2 per cent to £81.0 billion, due to a reduction in price sensitive customer deposits in Treasury and Trading, partially offset by an increase in deposits in Corporate Markets in line with the Group’s funding strategy.

Risk-weighted assets decreased by £19.5 billion, or 10 per cent, to £176.6 billion, primarily reflecting the balance sheet reductions including treasury asset sales and the run down in other non-core asset portfolios, but also the impact of subdued corporate lending.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Corporate Markets

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	1,076	1,170	(8)	1,324
Other income	528	1,129	(53)	885
Total income	1,604	2,299	(30)	2,209
Costs:				
Operating expenses	(697)	(691)	(1)	(727)
Impairment of tangible fixed assets	–	(150)		–
	(697)	(841)	17	(727)
Trading surplus	907	1,458	(38)	1,482
Impairment	(1,442)	(2,609)	45	(1,191)
Share of results of joint ventures and associates	8	(61)		(34)
(Loss) profit before tax and fair value unwind	(527)	(1,212)	57	257
Cost:income ratio (excl. impairment of tangible fixed assets)	43.5%	30.1%		32.9%
Impairment as a % of average advances (annualised)	2.00%	3.13%		1.32%

Key balance sheet items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	121.6	131.6	(8)
Customer deposits	63.0	61.3	3
Risk-weighted assets	156.7	175.5	(11)

Loss before tax and fair value unwind decreased by £685 million to £527 million, due to a significant decrease in the impairment charge, which more than offset the decrease in income. Net interest income decreased by £94 million, or 8 per cent. This reflected lower interest-earning asset balances as a result of the ongoing focus on reducing the balance sheet and also higher wholesale funding costs. Despite the increased funding costs, net interest income benefited from improved deposit margins from the increased market value of deposits.

Other income was £601 million lower, or 53 per cent, also reflecting the effects of disposals from the Group's targeted balance sheet reduction in Wholesale Markets. This was partially offset by valuation gains and profits on disposals in the Equity business.

Operating expenses were in line with prior year, which included increased costs in Wholesale Markets from continued investment in customer facing resource and systems, offset by decreases in other areas as the synergy benefits from integration are being realised.

The impairment charge decreased by £1,167 million to £1,442 million in the first half of 2011 reflecting a sustained decrease since the peak in the first half of 2009. This was due to the stabilising economic environment, low interest rates which helped to maintain defaults at reduced levels and the stabilisation of UK real estate prices.

A favourable variance of £150 million occurred on impairment of tangible fixed assets, which was incurred on assets held on the balance sheet as a result of the consolidation of certain entities over which the Group exercised control in the first half of 2010.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Treasury and Trading

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	133	188	(29)	136
Other income	241	167	44	155
Total income	374	355	5	291
Operating expenses	(119)	(96)	(24)	(122)
Profit before tax and fair value unwind	255	259	(2)	169
Cost:income ratio	31.8%	27.0%		41.9%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers1	20.7	4.1	
Customer deposits2	22.0	31.7	(31)
Risk-weighted assets	9.1	8.6	6

1 Of which reverse repos represent £19.7 billion (31 December 2010: £3.1 billion).
2 Of which repos represent £4.0 billion (31 December 2010: £10.2 billion).

Profit before tax and fair value unwind decreased by £4 million to £255 million.

Total income increased by £19 million, or 5 per cent. Income benefited primarily from the settlement of a claim which originated from losses booked in 2008 associated with a number of high profile financial services company failures, offset by lower performance in the underlying business as a result of difficult markets and reduced customer activity. Trading flows are managed with the overriding aim of providing a service to customers, whilst maintaining Treasury and Trading's conservative risk appetite.

Operating expenses increased by £23 million to £119 million reflecting the continued and controlled investment in people and systems, in particular the back office infrastructure, to support internal risk management and the growth ambitions in the larger customer franchise business. Operating costs in the first half of 2011 were marginally lower than in the second half of 2010.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Asset Finance

	Half-year to 30 June 2011 £m	Half- year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	192	218	(12)	215
Other income	568	692	(18)	651
Total income	760	910	(16)	866
Operating expenses	(496)	(614)	19	(502)
Trading surplus	264	296	(11)	364
Impairment	(115)	(192)	40	(72)
Share of results of joint ventures and associates	1	1		(1)
Profit before tax and fair value unwind	150	105	43	291
Cost:income ratio	65.3%	67.5%		58.0%
Impairment as a % of average advances (annualised)	2.51%	3.20%		1.37%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	7.5	8.9	(16)
Operating lease assets	2.7	3.0	(10)
Risk-weighted assets	10.8	12.0	(10)

Profit before tax and fair value unwind was £150 million, compared to £105 million in the first half of 2010. The £45 million improvement was due to lower costs and impairment charges, which were partially offset by lower income.

Total income decreased by £150 million, or 16 per cent, to £760 million as a result of lower business volumes, including assets held under operating leases, the benefit of sales tax-related claims settled last year and a £21 million loss on disposal of Hill Hire plc. The lower business volumes are in-line with a targeted reduction in this asset class and were partly offset by improved margins.

Operating expenses decreased by £118 million, or 19 per cent, to £496 million. This reflected an £85 million, or 20 per cent, decrease in depreciation charges on assets held under operating leases due to lower fleet size and a year-on-year improvement in used car values. Other costs decreased by £33 million, or 18 per cent, reflecting strong cost management and savings achieved from integration.

The impairment charge decreased by £77 million to £115 million, reflecting a stabilising economic environment and an improvement in market conditions for both the retail and non-retail consumer finance businesses. The lower impairment charge has been driven by a reduction in new cases entering arrears, the reduced book size and a better mix in the credit quality of new business being written.

LLOYDS BANKING GROUP PLC

COMMERCIAL

Key highlights

- Profit before tax was £262 million compared to £157 million in the first half of 2010.

- Profit before tax and fair value unwind was £236 million compared to £127 million in the first half of 2010, driven by higher income and reduced impairments.

- Net interest income increased by 14 per cent to £649 million, mainly reflecting the growth in deposit balances over the period and the value of attracting and retaining working capital credit balances at attractive margins.

- Other income decreased by 4 per cent to £218 million which reflects the subdued trading activity in the early part of the year and the greater use of electronic banking facilities by customers.

- Operating expenses decreased by 2 per cent to £471 million through cost efficiency and a reducing fraud loss exposure from improvements implemented at the end of 2010 in online security.

- Impairment charges on financial assets have decreased to £160 million compared to £190 million in the first half of 2010. There has been an overall improvement in the credit quality of the portfolio and a reduction in overall defaults as the UK economy has steadied and the continuing programme of process improvements is delivering results.

- Customer deposits have also increased by 4 per cent since the end of 2010. This increase reflects the ongoing success in the recruitment and retention of customers combined with targeted support in various customer segments especially education and legal.

- Focus continues on strengthening customer relationships through deepening and understanding individual business requirements. Commercial Finance, the Group's invoice discounting, factoring and equipment finance business, enjoyed positive net growth of approximately 10 per cent. Commercial has generated in excess of 50,000 referrals for a business insurance product and has grown its foreign exchange and international payments facility for small and medium-sized businesses.

LLOYDS BANKING GROUP PLC

COMMERCIAL (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	649	571	14	604
Other income	218	227	(4)	230
Total income	867	798	9	834
Operating expenses	(471)	(481)	2	(511)
Trading surplus	396	317	25	323
Impairment	(160)	(190)	16	(192)
Profit before tax and fair value unwind	236	127	86	131
Fair value unwind	26	30	(13)	51
Profit before tax	262	157	67	182
Banking net interest margin	4.35%	3.82%		3.93%
Cost:income ratio	54.3%	60.3%		61.3%
Impairment as a % of average advances (annualised)	1.07%	1.28%		1.19%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	28.7	28.6	
Customer deposits	32.7	31.3	4
Risk-weighted assets	26.8	26.6	1

LLOYDS BANKING GROUP PLC

COMMERCIAL (continued)

Financial performance

Profit before tax was £262 million compared to a profit of £157 million for the comparable period in 2010. The improvement of £105 million was predominantly due to higher net interest income, good cost management and a reduced level of impairments as the UK economy stabilises and improves.

Total income increased by £69 million, or 9 per cent, mainly driven by a 14 per cent increase in net interest income.

Net interest income grew by 14 per cent, or £78 million, as deposit balances and working capital credit balances increased.

Other income reduced by 4 per cent, or £9 million, due to the growing use by customers of electronic banking facilities and other reduced cost account services.

Operating expenses decreased by 2 per cent, or £10 million, primarily as a result of productivity and efficiency gains and the higher use of electronic banking coupled with the implementation of increased online fraud prevention security.

The impairment charge decreased by £30 million, or 16 per cent, due to an increase in the overall credit quality of the portfolio and the stabilisation of the UK economy and consequently an overall reduction in the level of defaults.

Balance sheet progress

Commercial's asset balances (comprising loans and advances to customers) increased by £0.1 billion since December 2010 reflecting a fall of £0.3 billion in the non-core real estate portfolio more than offset by an increase in term lending and asset-based finance of £0.4 billion where Commercial has attracted new small and medium sized enterprise (SME) customers with term lending and invoice finance requirements to switch from other providers, and has also successfully encouraged existing SME customers to invest in their businesses. Significant effort in promoting support has included running nearly 400 customer events in the first half of 2011.

Customer deposits increased by £1.4 billion since December 2010 reflecting customers' desire to retain liquidity and be cautious about investment.

Risk-weighted assets increased by £0.2 billion to £26.8 billion since December 2010 primarily reflecting the growth in assets.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL

Key highlights

- Loss before tax increased to £2,080 million compared to £1,609 million in the first half of 2010.

- Loss before tax and fair value unwind increased by £411 million to £2,184 million, compared to £1,773 million in the first half of 2010, due to lower income, higher costs and a higher impairment charge in International.

- In Wealth, profit before tax decreased by 11 per cent to £139 million and in International the loss before tax increased by 20 per cent to £2,323 million.

- Net interest income decreased by 15 per cent to £509 million, reflecting lower lending volumes and a 18 basis point reduction in the banking net interest margin, partly offset by the favourable impact of foreign currency movements, particularly the Australian dollar, higher deposit balances and improving deposit margins.

- Other income increased by 4 per cent to £631 million, with foreign exchange benefits in International and increasing funds under management in the Wealth businesses, partly offset by the non-recurrence of the gains on the sale of non-core businesses in Wealth recognised in the first half of 2010.

- Operating expenses increased by 6 per cent to £792 million, due to higher regulatory costs in the Wealth businesses, investment in growth in our Wealth businesses and our International on-line deposit taking operation and the effect of foreign currency rates, partly offset by benefits from cost saving initiatives across all businesses.

- The impairment charge amounted to £2,532 million, compared to £2,228 million in the first half of 2010, reflecting the continued deterioration in real estate values in Ireland and in Australasian property markets to which the Group is exposed.

- Loans and advances to customers decreased by £4.2 billion, or 8 per cent, to £51.1 billion, reflecting net repayments of £3.7 billion and additional impairment provisions in the International businesses, partly offset by foreign exchange movements of £2.0 billion.

- Customer deposits increased by £6.1 billion, or 19 per cent, to £38.9 billion, in the main due to continued strong inflows in our Wealth and International on-line deposit business.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	509	596	(15)	580
Other income	631	605	4	555
Total income	1,140	1,201	(5)	1,135
Operating expenses	(792)	(744)	(6)	(792)
Trading surplus	348	457	(24)	343
Impairment	(2,532)	(2,228)	(14)	(3,760)
Share of results of joint ventures and associates	–	(2)		(6)
Loss before tax and fair value unwind	(2,184)	(1,773)	(23)	(3,423)
Fair value unwind	104	164	(37)	208
Loss before tax	(2,080)	(1,609)	(29)	(3,215)
Wealth	139	156	(11)	113
International	(2,323)	(1,929)	(20)	(3,536)
Loss before tax and fair value unwind	(2,184)	(1,773)	(23)	(3,423)
Banking net interest margin	1.47%	1.65%		1.61%
Cost:income ratio	69.5%	61.9%		69.8%
Impairment as a % of average advances (annualised)	7.89%	6.56%		11.29%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	51.1	55.3	(8)
Customer deposits	38.9	32.8	19
Total customer balances	90.0	88.1	2
Risk-weighted assets	56.4	58.7	(4)

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

Financial performance

Loss before tax and fair value unwind increased by 23 per cent to £2,184 million due to lower income, higher costs and a higher impairment charge in International, predominantly in Ireland.

Total income decreased by 5 per cent to £1,140 million. Net interest income decreased by 15 per cent, reflecting lower lending balances and the increased strain of impaired lending in International, partly offset by higher deposit balances, improving deposit margins in Wealth and the impact of the stronger Australian dollar in International. Other income increased by 4 per cent, mainly due to foreign exchange benefits in International and increasing funds under management partly offset by the non-recurrence of gains on sale of businesses recognised in the first half of 2010 in Wealth.

Operating expenses increased by 6 per cent, due to increased investment in the International deposit business, the impact of the stronger Australian dollar and additional investment and regulatory costs in Wealth.

The impairment charge increased by 14 per cent to £2,532 million, reflecting the state of the commercial real estate market in Ireland and a further decline in valuations in Australasian property markets to which the Group is exposed.

Balance sheet progress

Loans and advances to customers decreased by £4.2 billion to £51.1 billion, reflecting net repayments of £3.7 billion and additional impairment provisions in the International businesses, partly offset by foreign exchange movements of £2.0 billion.

Customer deposits increased by £6.1 billion to £38.9 billion mainly due to continued strong deposit inflows in our Wealth and International on-line deposit businesses.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

Wealth

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	181	161	12	184
Other income	500	539	(7)	479
Total income	681	700	(3)	663
Operating expenses	(513)	(520)	1	(527)
Trading surplus	168	180	(7)	136
Impairment	(29)	(23)	(26)	(23)
Share of results of joint ventures and associates	–	(1)		–
Profit before tax and fair value unwind	139	156	(11)	113
Cost:income ratio	75.3%	74.3%		79.5%
Impairment as a % of average advances (annualised)	0.63%	0.49%		0.47%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	9.0	9.1	(1)
Customer deposits	27.3	26.8	2
Risk-weighted assets	9.3	10.4	(11)

Profit before tax and fair value unwind decreased by 11 per cent to £139 million mainly due to lower income.

Total income decreased by 3 per cent to £681 million. Net interest income increased by 12 per cent, reflecting higher deposit balances and improving deposit margins. Other income decreased by 7 per cent, mainly due to the non-recurrence of gains on sale of non-core businesses recognised in the first half of 2010.

Operating expenses decreased by 1 per cent, with benefits from cost saving initiatives partly offset by increased regulatory costs. The impairment charge increased £6 million, or by 26 per cent.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

Funds under management

	As at 30 June 2011 £bn	As at 30 June 2010 £bn	As at 31 Dec 2010 £bn
Scottish Widows Investment Partnership (SWIP)			
Internal	120.7	110.9	118.2
External	26.7	25.5	28.0
	147.4	136.4	146.2
Other Wealth:			
St James's Place	29.1	22.4	27.0
Invista Real Estate	2.5	5.4	5.3
Private and International Banking	14.3	14.3	13.5
Closing funds under management	193.3	178.5	192.0

		Half-year to 30 June 2011 £bn	Half-year to 30 June 2010 £bn	Half-year to 31 Dec 2010 £bn
Opening funds under management		192.0	184.1	178.5
Inflows:				
SWIP	– internal	1.0	1.1	0.9
	– external	0.7	2.0	6.9
Other		3.8	3.7	3.0
		5.5	6.8	10.8
Outflows:				
SWIP	– internal	(4.4)	(0.5)	(5.1)
	– external	(1.8)	(6.6)	(6.7)
Other		(2.1)	(2.1)	(3.0)
		(8.3)	(9.2)	(14.8)
Investment return, expenses and commission		4.1	(2.5)	17.6
Net operating increase (decrease) in funds		1.3	(4.9)	13.6
Sale of Bank of Scotland Portfolio Management Service		–	(0.7)	(0.1)
Closing funds under management		193.3	178.5	192.0

Funds under management of £193.3 billion increased by £1.3 billion. Net outflows of £8.3 billion reflect withdrawals from insurance funds impacting SWIP, partially offset by strong net inflows in St. James's Place plc and Private Banking. Increases in global equity values increased funds under management by a further £4.1 billion.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

International

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	328	435	(25)	396
Other income	131	66	98	76
Total income	459	501	(8)	472
Operating expenses	(279)	(224)	(25)	(265)
Trading surplus	180	277	(35)	207
Impairment	(2,503)	(2,205)	(14)	(3,737)
Share of results of joint ventures and associates	–	(1)		(6)
Loss before tax and fair value unwind	(2,323)	(1,929)	(20)	(3,536)
Cost:income ratio	60.8%	44.7%		56.1%
Impairment as a % of average advances (annualised)	9.09%	7.54%		13.13%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	42.1	46.2	(9)
Customer deposits	11.6	6.0	93
Risk-weighted assets	47.1	48.3	(2)

Loss before tax and fair value unwind increased by £394 million to £2,323 million mainly as a result of a higher impairment charge, reflecting an increase of £222 million in Ireland and £132 million in Australia.

Total income decreased by 8 per cent, but was 18 per cent lower in constant currency, reflecting lower interest-earning assets and the increased strain of higher impaired assets.

Operating expenses increased by 25 per cent in both actual and constant currency terms, reflecting the continued development of International's on-line deposit business partly offset by cost saving initiatives across the International business.

The impairment charge and loans and advances to customers are summarised by key geography in the following table.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

International (continued)

	Impairment charges			Loans and advances to customers	
	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn
Ireland	1,779	1,557	2,707	17.7	19.6
Australia	586	454	908	10.6	12.3
Wholesale Europe	111	145	65	6.5	6.9
Latin America/Middle East	23	43	54	0.4	0.6
Netherlands	4	6	3	6.9	6.8
	2,503	2,205	3,737	42.1	46.2

The impairment charge increased by £298 million, or 14 per cent, to £2,503 million due to increased impairment charges in Ireland, reflecting actual and anticipated further falls in the commercial real estate market in Ireland.

Balance sheet progress

Loans and advances to customers decreased by £4.1 billion or 9 per cent, to £42.1 billion due to net repayments of £3.7 billion across all businesses and further impairment provisions, partly offset by an increase due to foreign exchange movements of £2.0 billion. The division is focused on de-risking and right-sizing the balance sheet, focusing on key Group relationships, as well as reducing concentrations in Commercial Real Estate.

Customer deposits increased by £5.6 billion, or 93 per cent, to £11.6 billion driven by continued strong performance in our International on-line deposit business.

LLOYDS BANKING GROUP PLC

INSURANCE

Key highlights

- Profit before tax increased by 16 per cent to £543 million, compared to £469 million in the first half of 2010.

- Profit before tax and fair value unwind increased by 15 per cent to £564 million, although the first half of 2010 included a charge of £70 million in respect of the Group's decision to cease writing new payment protection insurance (PPI) business. Excluding this charge, profit before tax and fair value unwind was in line with the first half of 2010.

- Total income, net of insurance claims, increased by £56 million to £979 million. This reflects the non-recurrence of the £70 million charge as detailed above, lower PPI related income, partially offset by the continued change in mix within Life, Pensions and Investments UK (LP&I UK) towards more profitable protection business and improved claims experience within General Insurance (GI).

- Operating expenses decreased by 2 per cent or £8 million to £415 million due mainly to a continued focus on cost management and delivery of integration synergies.

- LP&I UK margin increased to 4.2 per cent from 3.5 per cent in 2010. The improved margin reflects the continued focus on value and the strategic choices made in respect of product and channel propositions, in particular the higher proportion of protection business now sold. The Internal Rate of Return (IRR) on new business has continued to increase in the first half of 2011 and is in excess of 16 per cent.

- LP&I UK sales of £5,595 million (PVNBP) reduced by 9 per cent, partly reflecting the continuing change in mix away from savings products towards more profitable protection business, following the launch of our integrated bancassurance proposition in June 2010. Sales through our Intermediary channel have increased by 17 per cent to £3,407 million reflecting increased sales of Corporate Pensions.

- General Insurance profits increased by 10 per cent to £214 million primarily due to lower unemployment and freeze claims year-on-year after taking account of continuing lower income resulting from the Group ceasing to write new PPI business in 2010.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	(142)	(136)	(4)	(127)
Other income	1,319	1,320		1,494
Total income	1,177	1,184	(1)	1,367
Insurance claims	(198)	(261)	24	(281)
Total income, net of insurance claims	979	923	6	1,086
Operating expenses	(415)	(423)	2	(431)
Share of results of joint ventures and associates	–	(10)		–
Profit before tax and fair value unwind	564	490	15	655
Fair value unwind	(21)	(21)		(22)
Profit before tax	543	469	16	633
Profit before tax and fair value unwind by business unit				
Life, Pensions and Investments:				
UK business	347	273	27	410
European business	10	19	(47)	91
General Insurance	214	195	10	177
Other1	(7)	3		(23)
Profit before tax and fair value unwind	564	490	15	655

1 Includes certain Group and divisional costs and income not allocated to business units, as well as the division’s share of results of joint ventures and associates. The half-year to 30 June 2010 included an accounting gain on disposal of £13 million from the sale of the Group’s joint venture investment in esure.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Financial performance

Profit before tax and fair value unwind increased by 15 per cent to £564 million, although the first half of 2010 included a charge of £70 million in respect of the Group’s decision to cease writing new PPI business. Excluding this charge profit before tax and fair value unwind is in line with the first half of 2010.

Total income, net of insurance claims, increased by £56 million to £979 million which reflects the non-recurrence of the £70 million charge as detailed above, lower PPI related income, partially offset by the continued change in mix within LP&I UK towards more profitable protection business, and improved claims experience within GI.

The continued focus on cost management and delivery of integration synergies resulted in a decrease in operating expenses.

Capital management and operational efficiency

Following the significant work undertaken in 2010 to optimise the Insurance division’s contribution to Group capital, this work has remained a major focus during 2011. The Insurance division remains well capitalised as assessed using the Insurance Groups Directive (IGD) regulatory measure of surplus capital and is progressing well with its implementation of Solvency II requirements.

The Insurance division continues to focus on cost reduction with operating expenses decreasing by 2 per cent in the first half of 2011. Efficiencies have been achieved without compromising the quality of customer service and customer satisfaction scores have remained robust across the division.

In July 2011 all the legal entities in the Insurance division were brought under one common holding company to create a single insurance group.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Life, Pensions and Investments

UK business

		Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income		(123)	(116)	(6)	(111)
Other income		727	645	13	763
Total income		604	529	14	652
Operating expenses		(257)	(256)		(242)
Profit before tax and fair value unwind		347	273	27	410
Profit before tax and fair value unwind by business unit					
New business profit	– insurance business1	201	166	21	166
	– investment business1	(33)	(34)	3	(31)
Total new business profit		168	132	27	135
Existing business profit		178	234	(24)	230
Experience and assumption changes		1	(93)		45
Profit before tax and fair value unwind		347	273	27	410
Life, Pensions and Investments sales (PVNBP)		5,595	6,151	(9)	4,165

1 As required under IFRS, products are split between insurance and investment contracts depending on the level of insurance risk contained. For insurance contracts, the new business profit includes the net present value of profits expected to emerge over the lifetime of the contract, including profits anticipated in periods after the year of sale; for investment contracts the figure reflects the profit in the year of sale only, after allowing for the deferral of initial income and expenses. Consequently the recognition of profit for investment contracts is deferred relative to insurance contracts.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Life, Pensions and Investments UK (LP&I UK) delivered profit growth, before tax and fair value unwind, of £74 million, or 27 per cent, although the first half of 2010 included a £70 million charge from the Group's decision to cease writing new PPI business. Excluding this charge, profit before tax and fair value unwind increased by £4 million or 1 per cent.

Total new business profit increased by £36 million, or 27 per cent, to £168 million. The increase is primarily attributable to the focus on value over volume initiated as part of the post-integration strategy. The integration of the intermediary sales forces in 2009, including the repositioning of the product set, is now resulting in increased Corporate Pensions sales (62 per cent higher than for the period ended 30 June 2010 on a PVNBP basis). The launch of the integrated bancassurance proposition in June 2010 has resulted in the continuing change in mix within the bancassurance channel away from savings products towards more profitable protection business.

Existing business profit decreased by £56 million, or 24 per cent, to £178 million. The decrease predominantly reflects the impact of the Group's decision to cease writing new PPI business in the second half of 2010, a reduction in the assumed rate of return, and a lower volume of shareholder net assets earning returns as a result of capital repatriation initiatives in 2010.

The charge in respect of experience and assumption changes reduced from a charge of £93 million in the first half of 2010 to a credit of £1 million in the first half of 2011. The reduction mainly reflects the absence of the £70 million charge in 2010 from the Group's decision to cease writing new PPI business. The absence of the 2010 charge was partially offset by a degree of adverse short-term persistency experience in the period.

The capital positions of the UK life insurance companies within the Insurance division remain robust. The estimated Insurance Groups Directive (IGD) capital surplus for the Scottish Widows insurance group was £1.2 billion (31 December 2010: £1.3 billion), and the estimated IGD capital surplus for the HBOS insurance group was £1.7 billion (31 December 2010: £1.6 billion).

European business

Profit before tax decreased by £9 million, 47 per cent, to £10 million. Although sales (PVNBP) have decreased by 7 per cent from first half of 2010, the campaign 'Heidelberger Leben Goes Mainstream Market' which was launched in April 2010, and which aims to position HLE as a key provider for independent brokers, resulted in a doubling of sales in this segment in the first half of the year compared to the first half of 2010.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

New business

In the bancassurance channel the reduction reflects a change in mix away from savings products towards more profitable protection business. Sales of OEICs were further adversely affected by a reduction in the volume of capital protected product sales. However, sales of protection products increased by 33 per cent.

Within the intermediary channel the increase of £474 million, or 15 per cent, mainly reflects strong sales of corporate pensions in LP&I UK.

The direct channel, although relatively small at this time, is performing well and is being developed for future growth.

An analysis of the present value of new business premiums (PVNBP) for business written by the Insurance division, split between the UK and European Life, Pensions and Investments businesses is given below:

Analysis by product	UK	Europe	Half-year to 30 June 2011 Total	UK	Europe	Half-year to 30 June 2010 Total	Change since 30 June 2010	Half-year to 31 Dec 2010 Total
	£m	£m	£m	£m	£m	£m	%	£m
Protection	376	18	394	280	16	296	33	334
Payment protection	11	–	11	54	–	54	(80)	16
Savings and investments	633	99	732	925	112	1,037	(29)	895
Individual pensions	780	51	831	942	52	994	(16)	753
Corporate and other pensions	2,350	–	2,350	1,437	–	1,437	64	1,313
Retirement income	394	–	394	536	–	536	(26)	353
Managed fund business	58	–	58	70	–	70	(17)	107
Life and pensions	4,602	168	4,770	4,244	180	4,424	8	3,771
OEICs	993	–	993	1,907	–	1,907	(48)	726
Total	5,595	168	5,763	6,151	180	6,331	(9)	4,497
Analysis by channel								
Bancassurance	1,850	–	1,850	2,956	–	2,956	(37)	1,476
Intermediary	3,407	168	3,575	2,921	180	3,101	15	2,776
Direct	338	–	338	274	–	274	23	245
Total	5,595	168	5,763	6,151	180	6,331	(9)	4,497

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Funds under management
The table below shows the funds of the Life, Pensions and Investment companies within the Insurance division. These funds are predominantly managed within the Group by the Wealth and International division.

	Half-year to 30 June 2011 £bn	Half-year to 30 June 2010 £bn	Half-year to 31 Dec 2010 £bn
Opening funds under management	133.1	122.1	123.2
UK business			
Premiums	5.6	6.3	4.9
Claims and surrenders	(7.5)	(8.1)	(6.8)
Net outflow of business	(1.9)	(1.8)	(1.9)
Investment return, expenses and commission	2.3	(0.6)	11.1
Other movements1	–	4.1	0.2
Net movement	0.4	1.7	9.4
European business			
Net movement	0.1	(0.1)	0.5
Dividends and capital repatriation	(0.3)	(0.5)	–
Closing funds under management	133.3	123.2	133.1
Managed by the Group	107.6	103.4	109.3
Managed by third parties	25.7	19.8	23.8
Closing funds under management	133.3	123.2	133.1

1 Other movements in funds under management incorporate alignment changes and the inclusion of managed pension funds.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

General Insurance

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change %	Half-year to 31 Dec 2010 £m
Home insurance				
Underwriting income (net of reinsurance)	449	455	(1)	467
Commission receivable	38	35	9	40
Commission payable	(67)	(70)	4	(65)
	420	420		442
Payment protection insurance				
Underwriting income1	185	292	(37)	252
Commission receivable	38	(23)		50
Commission payable	(152)	(134)	(13)	(184)
	71	135	(47)	118
Other				
Underwriting income (net of reinsurance)	2	3	(33)	3
Commission receivable	13	22	(41)	28
Commission payable	(2)	(9)	78	(6)
Other (including investment income)	4	(9)		(25)
	17	7		–
Net operating income	508	562	(10)	560
Claims paid on insurance contracts (net of reinsurance)	(198)	(261)	24	(281)
Operating income, net of claims	310	301	3	279
Operating expenses	(96)	(106)	9	(102)
Profit before tax and fair value unwind	214	195	10	177
Combined ratio	73%	77%		80%

1 The Group ceased writing new PPI business on 23 July 2010. Underwriting income therefore relates primarily to existing business.

Profit before tax and fair value unwind from General Insurance increased by 10 per cent to £214 million. The increase was primarily due to improved unemployment and freeze claims period-on-period, after taking account of continuing lower income as a result of the Group ceasing to write new PPI business on 23 July 2010.

Total income for home insurance was in line with the first half of 2010 at £420 million and reflects the maturity and competitiveness of the market.

Reduced claims of £198 million, 24 per cent lower than in the first half of 2010, mainly reflect lower unemployment claims combined with favourable experience on the home book as the freeze events in January 2011 were less severe than those of January 2010. Claims continue to be positively impacted by a reduction in the size of the book which has resulted in lower claims overall.

Operating expenses decreased by £10 million, or 9 per cent, to £96 million primarily as a result of the continuing delivery of integration savings and a continued focus on cost management.

LLOYDS BANKING GROUP PLC

GROUP OPERATIONS

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010[1] £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010[1] £m
Net interest income	(29)	(36)	19	(36)
Other income	23	15	53	34
Total income	(6)	(21)	71	(2)
Direct costs:				
Information technology	(551)	(609)	10	(598)
Operations	(303)	(319)	5	(319)
Property	(467)	(486)	4	(483)
Procurement	(28)	(30)	7	(29)
Support functions	(48)	(52)	8	(56)
	(1,397)	(1,496)	7	(1,485)
Result before recharges to divisions	(1,403)	(1,517)	8	(1,487)
Total net recharges to divisions	1,341	1,460	(8)	1,478
Share of results of joint ventures and associates	–	1		2
Loss before tax	(62)	(56)	(11)	(7)

1 2010 comparative figures have been amended to reflect the impact of centralising operations across the Group as part of the integration programme.

Financial performance

2011 direct costs decreased by £99 million, or 7 per cent, to £1,397 million reflecting the continued focus on cost management and the delivery of integration synergy savings.

Information Technology costs decreased by 10 per cent, with integration savings offsetting inflationary rises.

Operations costs decreased by 5 per cent, through the continuing rationalisation of our major Operations functions.

Group Property costs decreased by 4 per cent, with the continuing consolidation of the heritage property portfolios delivering further integration benefits.

Procurement costs decreased by 7 per cent, reflecting the impact of negotiated lower third party costs on centrally managed contracts. In addition, Procurement has helped to deliver Group-wide synergies.

LLOYDS BANKING GROUP PLC

CENTRAL ITEMS

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m
Net interest expense	(173)	(296)	(527)
Other income	(414)	840	(442)
Total income	(587)	544	(969)
Operating expenses	(65)	(117)	10
Trading surplus	(652)	427	(959)
Share of results of joint ventures and associates	–	1	1
(Loss) profit before tax and fair value unwind	(652)	428	(958)
Fair value unwind	(536)	(866)	(580)
Loss before tax	(1,188)	(438)	(1,538)

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

Net interest expense improved by £123 million to £173 million. This improvement came primarily from other interest rate risk management activities in the banking book and a lower unwind expense from terminated hedge relationships, offset by an increase in unrecovered wholesale funding costs.

Other income decreased by £1,254 million to £(414) million. Liability management gains of £423 million arose on transactions undertaken in 2010 as part of the Group's management of capital, which exchanged certain debt securities for ordinary shares or other debt instruments. There were no comparable transactions in 2011. In addition, there was a £428 million adverse change in the mark-to-market movement arising from the equity conversion feature of the Group’s Enhanced Capital Notes, along with a £497 million adverse movement within Banking Volatility.

Operating expenses reduced by £52 million to £65 million primarily due to lower pension costs held centrally.

Fair value unwind reduced by £330 million to £(536) million primarily due to the effect of liability management transactions and deal maturities leading to a reduced amortisation rate.

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ADDITIONAL INFORMATION ON A COMBINED BUSINESSES BASIS (UNAUDITED)

1. Basis of preparation of combined businesses information

Readers should be aware that the combined businesses basis has been presented for comparative purposes only and is neither intended to provide proforma information nor to show the results of the Group as if the acquisition of HBOS had taken place at an earlier date.

Comparisons of results on a statutory basis are of reduced benefit due to a number of factors. 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 following adjustments have been made:
  - 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 the business performance the following items, not related to acquisition accounting, have also been excluded:
  - integration costs;
  - insurance and policyholder interests volatility;
  - curtailment gains and losses in respect of the Group’s defined benefit pension schemes;
  - the customer goodwill payments provision;
  - the payment protection insurance provision;
  - sale costs in respect of the EU mandated retail business disposal (Project Verde); and
  - loss on disposal of businesses.

The following tables set out a reconciliation from the statutory (IFRS) results to the combined business results.

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1. Basis of preparation of combined businesses information (continued)

Half-year to 30 June 2011	Lloyds Banking Group statutory £m	Removal of: Acquisition related items1 £m	Volatility arising in insurance businesses £m	Insurance gross up £m	Fair value unwind £m	Combined businesses £m
Net interest income	5,989	–	(10)	102	297	6,378
Other income	10,214	–	187	(5,332)	(1,071)	3,998
Total income	16,203	–	177	(5,230)	(774)	10,376
Insurance claims	(5,349)	–	–	5,151	–	(198)
Total income, net of insurance claims	10,854	–	177	(79)	(774)	10,178
Operating expenses	(6,428)	978	–	79	39	(5,332)
Trading surplus (deficit)	4,426	978	177	–	(735)	4,846
Impairment	(4,491)	–	–	–	(931)	(5,422)
Share of results of joint ventures and associates	14	–	–	–	(2)	12
Fair value unwind		–	–	–	1,668	1,668
(Loss) profit before tax	(51)	978	177	–	–	1,104

1 Comprises integration costs (£642 million) and the amortisation of purchased intangibles (£289 million) and EU mandated retail business disposal costs (£47 million).

Half-year to 30 June 2010	Lloyds Banking Group statutory £m	Removal of: Acquisition related items including pension curtailment gain1 £m	Volatility arising in insurance businesses £m	Insurance gross up £m	Fair value unwind £m	Combined businesses £m
Net interest income	7,038	–	11	(321)	183	6,911
Other income	8,742	–	188	(2,686)	(413)	5,831
Total income	15,780	–	199	(3,007)	(230)	12,742
Insurance claims	(3,189)	–	–	2,926	2	(261)
Total income, net of insurance claims	12,591	–	199	(81)	(228)	12,481
Costs:						
Operating expenses	(5,609)	56	–	81	37	(5,435)
Impairment of tangible fixed assets	(202)	52	–	–	–	(150)
	(5,811)	108	–	81	37	(5,585)
Trading surplus (deficit)	6,780	108	199	–	(191)	6,896

Impairment	(5,423)	–	–	–	(1,131)	(6,554)
Share of results of joint ventures and associates	(61)	–	–	–	(1)	(62)
Fair value unwind		–	–	–	1,323	1,323
Profit before tax	1,296	108	199	–	–	1,603

1 Comprises integration costs (£804 million), the amortisation of purchased intangibles (£323 million) and the pension curtailment gain (£1,019 million).

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1. Basis of preparation of combined businesses information (continued)

		Removal of:					
Half-year to 31 Dec 2010	Lloyds Banking Group statutory £m	Acquisition related items including pension curtailment loss1 £m	Volatility arising in insurance businesses £m	Insurance gross up £m	Payment protection insurance provision, customer goodwill payments provision and loss on disposal of businesses2 £m	Fair value unwind £m	Combined businesses £m
Net interest income	5,508	–	15	1,270	–	118	6,911
Other income	22,179	–	(520)	(16,476)	–	(850)	4,333
Total income	27,687	–	(505)	(15,206)	–	(732)	11,244
Insurance claims	(15,322)	–	–	15,041	–	–	(281)
Total income, net of insurance claims	12,365	–	(505)	(165)	–	(732)	10,963
Operating expenses	(10,659)	1,264	–	165	3,700	37	(5,493)
Trading surplus (deficit)	1,706	1,264	(505)	–	3,700	(695)	5,470
Impairment	(5,529)	–	–	–	–	(1,098)	(6,627)
Share of results of joint ventures and associates	(27)	–	–	–	–	(2)	(29)
Loss on disposal of businesses	(365)	–	–	–	365	–	–
Fair value unwind		–	–	–	–	1,795	1,795
(Loss) profit before tax	(4,215)	1,264	(505)	–	4,065	–	609

1 Comprises integration costs (£849 million), the amortisation of purchased intangibles (£306 million) and the pension curtailment loss (£109 million).

2 Comprises the payment protection insurance provision (£3,200 million), the customer goodwill payments provision (£500 million) and the loss on disposal of businesses (£365 million).

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2. Banking net interest margin

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m
Banking net interest margin			
Banking net interest income	6,211	6,646	6,740
Average interest-earning assets	604,804	644,701	630,190
Banking net interest margin	2.07%	2.08%	2.12%

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

A reconciliation of banking net interest income to Group net interest income showing the items that are excluded in determining banking net interest income follows:

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m
Banking net interest income – combined businesses	6,211	6,646	6,740
Insurance division	(142)	(136)	(127)
Other net interest income (including trading activity)	309	401	298
Group net interest income – combined businesses	6,378	6,911	6,911
Fair value unwind	(297)	(183)	(118)
Insurance gross up	(102)	321	(1,270)
Volatility arising in insurance businesses	10	(11)	(15)
Group net interest income – statutory	5,989	7,038	5,508

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3. Integration costs and benefits

The Group is on schedule to substantially complete the integration programme in the autumn of this year, and to deliver run-rate cost synergies and other operating efficiencies of £2 billion per annum from the programme by the end of 2011.

The sustainable run-rate synergies achieved as at 30 June 2011 totalled £1,750 million, excluding a number of one-off savings. The table below analyses the run-rate synergies as at 30 June 2011 by division and the 2011 target run-rate of £2 billion.

	Synergy run-rate as at 30 June 2011 £m	2011 Allocation of Group Operations run-rate to divisions £m	Run-rate by market facing division £m	Target run-rate by market facing division £m
Retail	319	346	665	867
Wholesale and Commercial	293	197	490	532
Wealth and International	263	30	293	242
Insurance	179	52	231	239
Group Operations	657	(657)	–	–
Central items	39	32	71	120
Total	1,750	–	1,750	2,000

Cost synergies continue to be delivered through the integration of HBOS operations, processes and IT systems. These synergies arise through procurement; property; IT cost savings and job reductions, of which 28,000 have been announced to date.

A key final step to completing the programme is the migration of HBOS retail and commercial customer accounts to the Lloyds TSB IT platform. This significant programme is now in the final stages of testing and is expected to be completed in the autumn. The completion of integration moves the Group to a single platform which is a key enabler for many of the transformational initiatives announced as part of the Strategic Review at the end of June 2011.

Integration costs of £642 million were incurred in the half-year and have been excluded from the combined businesses results. This brings the total integration costs since the HBOS acquisition to £3,391 million.

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4. Impairment charge

	Half-year to 30 June 2011	Half-year to 30 June 2010	Half-year to 31 Dec 2010
	£m	£m	£m
Retail:			
Secured	295	53	239
Unsecured	878	1,282	1,173
Total Retail	1,173	1,335	1,412
Wholesale	1,509	2,748	1,107
Commercial	159	189	182
Wealth and International	2,528	2,227	3,758
Total impairment losses on loans and advances to customers	5,369	6,499	6,459
Loans and advances to banks	–	(6)	(7)
Debt securities classified as loans and receivables	17	15	42
Available-for-sale financial assets	32	49	66
Other credit risk provisions	4	(3)	67
Total impairment charge	5,422	6,554	6,627
Charge for impairment losses on loans and advances to customers as % of average lending (annualised):			
Retail:			
Secured	0.18%	0.03%	0.14%
Unsecured	6.46%	8.27%	7.94%
Total Retail	0.65%	0.72%	0.76%
Wholesale	2.02%	3.11%	1.31%
Commercial	1.07%	1.28%	1.19%
Wealth and International	7.89%	6.56%	11.29%
Total	1.77%	2.01%	2.02%

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5. Volatility arising in insurance businesses

The Group's statutory result is affected by insurance volatility, caused by movements in financial markets, and policyholder interests volatility, which primarily reflects the gross up of policyholder tax included in the Group's tax charge.

In the first half of 2011 the Group's statutory loss before tax included negative insurance and policyholder interests volatility totalling £177 million compared to negative volatility of £199 million in the first half of 2010.

Volatility comprises the following:

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m
Insurance volatility	(69)	(162)
Policyholder interests volatility1	(106)	(91)
Total volatility	(175)	(253)
Insurance hedging arrangements	(2)	54
Total	(177)	(199)

1 Includes volatility relating to the Group's interest in St James's Place.

Insurance volatility

The Group's insurance businesses have liability products that are supported by substantial holdings of investments, including equities, property and fixed interest investments, all of which are subject to variations in their value. The value of the liabilities does not move exactly in line with changes in the value of the investments, yet IFRS requires that the changes in both the value of the liabilities and investments be reflected within the income statement. As these investments are substantial and movements in their value can have a significant impact on the profitability of the Group, management believes that it is appropriate to disclose the division's results on the basis of an expected return in addition to results based on the actual return.

The expected sterling investment returns used to determine the normalised profit of the business, which are based on prevailing market rates and published research into historical investment return differentials, are set out below:

United Kingdom (Sterling)	2011 %	2010 %	2009 %
Gilt yields (gross)	3.99	4.45	3.74
Equity returns (gross)	6.99	7.45	6.74
Dividend yield	3.00	3.00	3.00
Property return (gross)	6.99	7.45	6.74
Corporate bonds in unit-linked and with-profit funds (gross)	4.59	5.05	4.34
Fixed interest investments backing annuity liabilities (gross)	4.78	5.30	5.72

The impact on the results due to the actual return on these investments differing from the expected return (based upon economic assumptions made at the beginning of the year) is included within insurance volatility. Changes in market variables also affect the realistic valuation of the guarantees and options embedded within the With Profits Funds, the value of the in-force business and the value of shareholders' funds.

5. Volatility arising in insurance businesses (continued)

The negative insurance volatility during the six months ended 30 June 2011 in the Insurance division was £69 million, primarily reflecting lower cash returns compared to long-term expectations. The more adverse charge in the first half of 2010 was primarily driven by a deterioration in equity markets which has not been experienced in the current period.

Group hedging arrangements

To protect against further deterioration in equity market conditions, and the consequent negative impact on the value of in-force business on the Group balance sheet, the Group purchased put option contracts in 2010, financed by selling some upside potential from equity market movements. These expired on 21 January 2011. The charge for these options was £4 million. New protection against significant market falls was acquired in January 2011 to replace the expired contracts. There was no initial cost associated with these hedging arrangements. On a mark-to-market valuation basis a gain of £2 million was recognised in relation to the new contracts in 2011. The 2011 option contracts expire on 20 January 2012.

Policyholder interests volatility

The application of accounting standards results in the introduction of other sources of significant volatility into the pre-tax profits of the life, pensions and investments business. In order to provide a clearer representation of the performance of the business, and consistent with the way in which it is managed, adjustments are made to remove this volatility from underlying profits. The effect of these adjustments is separately disclosed as policyholder interests volatility; there is no impact upon profit attributable to equity shareholders over the long term.

The most significant of these additional sources of volatility is policyholder tax. Accounting standards require that tax on policyholder investment returns should be included in the Group's tax charge rather than being offset against the related income. The impact is, therefore, to either increase or decrease profit before tax with a corresponding change in the tax charge. Over the longer term the charges levied to policyholders to cover policyholder tax on investment returns and the related tax provisions are expected to offset. In practice timing and measurement differences exist between provisions for tax and charges made to policyholders. Consistent with the normalised approach taken in respect of insurance volatility, differences in the expected levels of the policyholder tax provision and policyholder charges are adjusted through policyholder interests volatility. Other sources of volatility include the minorities' share of the profits earned by investment vehicles which are not wholly owned by the long-term assurance funds.

During the six months to 30 June 2011, the statutory results before tax in both the Insurance and Wealth and International divisions included a charge to other income which relates to policyholder interests volatility totalling £106 million (half-year to 30 June 2010: £91 million charge). This charge included the impact of deferred tax asset impairments due to less optimistic economic forecasts and changes in expected policyholder tax provisions. Policyholder tax liabilities decreased during the first half of 2011 and led to a tax credit during the period.

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6. Number of employees (full-time equivalent)

	As at 30 June 2011	As at 31 Dec 2010
Retail	54,714	53,839
Wholesale	11,376	12,067
Commercial	6,110	6,034
Wealth and International	8,307	8,348
Insurance	9,433	9,764
Group Operations	19,564	18,465
Central items	2,841	2,881
	112,345	111,398
Agency staff (full-time equivalent)	(8,486)	(7,168)
Total number of employees (full-time equivalent)	103,859	104,230

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RISK MANAGEMENT

The income statement numbers in this section have been presented on a combined businesses basis.

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RISK MANAGEMENT APPROACH

There have been no material changes to the Group's approach to risk management as described in the risk management report within the Lloyds Banking Group Form 20-F for the year ended 31 December 2010.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group for the remaining six months of the year are set out below, together with details of how they have evolved during the first half of the 2011 and continue to be actively managed by the Group.

Economy

The global economic recovery has slowed in the first half of 2011. Sharp increases in the price of oil and other commodities across the turn of the year, driven by emerging market strength in 2010, have impacted consumers' disposable incomes across the world and led to tighter monetary policy in emerging markets. Earlier fiscal stimulus in the US economy has now come to an end, and fiscal tightening is underway across Europe, particularly sharply in the most highly indebted countries. Whilst many advanced economies need an improvement in their net external trade position to offset weak consumer and government spending, current emerging market economic policies are not fully geared towards providing a strong engine of global growth through raising their own domestic demand. Highly indebted Eurozone countries are struggling to generate the growth needed to put their debt levels on a sustainable path given the scale of near-term austerity measures also required and the lack of help in the adjustment from interest rates or the exchange rate. Greece has required a second bail-out, agreed at the 21 July 2011 Eurozone summit meeting, but it is still unclear that it will be able eventually to service all its debt, so financial markets remain volatile and risk of contagion to other countries is unlikely to dissipate near-term.

All these factors together suggest that the global recovery is likely to continue to be weak and hesitant in comparison to other post-war recoveries. The degree of weakness in early 2011 was also exacerbated by the Japanese earthquake and tsunami, which has disrupted global manufacturing supply chains and caused some loss of production.

Current data show that the UK economy experienced very little underlying growth over the nine months to end of the second quarter of 2011. Consumer confidence and spending was hit by the fall in real disposable incomes. House prices have been falling gradually and commercial property prices have flattened off. Nevertheless, employment has continued to rise and our customers' current account transactions suggest that the underlying trend in households' income growth began to improve during the second quarter of 2011.

The Group's central scenario is for modest recovery to continue, assuming the recent Eurozone agreement on sovereign debt is enacted quickly and followed up by further measures for Greece. For the UK, the current projection reflected in our outlook, of 1.5 per cent Gross Domestic Product (GDP) growth in 2011 and 2.3 per cent in 2012 is broadly in line with consensus. Households' real spending growth should begin to improve as the squeeze from high inflation begins to reduce towards the end of the year. Net exports should continue to rise, reflecting the weakness of sterling. Unemployment should decline slowly, with companies reducing cost ratios through continued low wage growth. But with underlying inflationary pressures higher than before the recession, as the economy becomes more stable interest rates will need to rise gradually, and will act as a restraint on the recovery. Further improvements in the corporate failure rate are expected to be only gradual to the end of 2012. Both residential and commercial property prices are expected to end this year 2 per cent lower than at the end of 2010, and then rise only very slowly.

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Economy (continued)

The US economic recovery is assumed to continue in the second half of 2011, as production recovers from the impacts of the Japanese earthquake, and in the Eurozone there is expected to be a continuing wide divergence between recovery in the stronger low-deficit countries and the higher deficit countries that will struggle to grow at all. The Irish economy, to which we have exposure, is expected to be only flat in 2011, and will not return to its pre-recession growth rate. House prices there are expected to fall by 10 per cent during 2011 and slightly further in 2012; commercial property prices are expected to fall further during 2011, but be flat over 2012.

Downside risks around this scenario remain significant. Further increases in inflation could damage already weak consumer confidence, or result in earlier increases in interest rates if wage growth started to respond. Financial markets may remain unstable and continue to put extra pressure on other Eurozone economies outside Greece, given that current measures may fall short of solving Greece's problems. Since any shock to growth would also worsen the outlook for both public finances and bank capital and funding, a relatively small initial shock could throw economies onto a much weaker path as governments are forced to tighten fiscal policy even further or financial institutions are constrained in their ability to lend. A 'double-dip' scenario – a second shallower recession following closely the one that the economy is just emerging from – would result in further significant increases in corporate failures and unemployment during late 2011 and through 2012. In addition, residential and commercial property would suffer a second period of falling prices, tenant defaults would increase and central banks would have limited ability to cushion the downturn.

Impact on the Group's markets

Mortgage market balances outstanding grew by just 0.2 per cent in the year to May, after 0.4 per cent growth in the year to end 2010. Unsecured consumer borrowing has, however, begun to pick up slightly from its extremely weak levels of 2010, although it is still very weak compared to longer term trends. Deposit market growth has also remained low, with growth in balances slowing to 2.1 per cent in May 2011 from 3 per cent at end 2010, as deteriorating disposable incomes have squeezed savings flows.

Businesses also continue to reduce their indebtedness. Non-financial corporations have continued to reduce borrowing so far in 2011. Rising profits and weak investment spending boosted companies' deposit growth in the latter part of 2009 and the first half of 2010, but deposits are now declining slowly.

Low interest rates have been a key benefit to consumers and businesses. Arrears and defaults rose by much less during the recession than in previous recessions, and began to improve in 2010 despite the weakness of the recovery in the economy. The number of individual insolvencies during the second half of 2010 was 8.9 per cent lower than a year earlier, and 15.5 per cent lower than a year earlier in the first quarter of 2011. The number of company liquidations in England and Wales rose in the first quarter of 2011, however, by 3.7 per cent from the fourth quarter of 2010 level, although they remain almost 18 per cent down from the mid 2009 peak and the failure of active companies has remained flat at 0.7 per cent.

We expect that a continuation of subdued economic recovery will be accompanied by a period of modest growth in the Group's core markets for several years. Consumers and businesses will continue to deleverage slowly. Retail deposit growth will be limited by the pressure on consumers' disposable incomes from relatively high inflation and cuts in welfare benefits. Arrears trends should continue to improve, but less quickly than in 2010.

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Liquidity and funding

Liquidity and funding continues to remain a key area of focus for the Group and the industry as a whole. Like all major banks, the Group is dependent on confidence in the short and long term wholesale funding markets. Should the Group, due to exceptional circumstances, be unable to continue to source sustainable funding, its ability to fund its financial obligations could be impacted.

The combination of right-sizing the balance sheet and continued development of the retail deposit base has seen the Group's wholesale funding requirement significantly reduce in the past two years. The progress the Group has made to date in diversifying its funding sources has further strengthened its funding base.

During the first half of 2011 the Group accelerated term funding initiatives and the run down of certain non-core asset portfolios allowing a further reduction in total Government and central bank facilities. The ratio of customer loans to deposits improved to 144 per cent compared with 154 per cent at 31 December 2010. Loans and advances reduced by £21.4 billion and customer deposits increased by £12.4 billion.

The second quarter of 2011 has seen funding markets' risk appetite reduce as a result of escalating European sovereign concerns. During this period the Group has continued to fund successfully with no material change to the Group's short-term maturity profile. The Group anticipates that wholesale markets will remain vulnerable to periods of disruption and to mitigate this risk has deliberately pre-funded much of the year's term funding requirement during the first half.

The Group term funding ratio (wholesale funding with a remaining life of over one year as a percentage of total wholesale funding) of 49 per cent was broadly stable (50 per cent at 31 December 2010). The wholesale funding position includes debt issued under the legacy Government Credit Guarantee Scheme, for which the last maturity will occur in October 2012.

The Group has maintained its liquidity levels in excess of the ILG regulatory minimum (FSA's Individual Liquidity Adequacy Standards) at all times. Funding projections show the Group will achieve the proposed Basel 3 liquidity and funding metrics in advance of expected implementation dates. The Liquidity Coverage Ratio is due to be implemented on 1 January 2015 and the Net Stable Funding Ratio has a 1 January 2018 implementation date.

The key dependencies on successfully funding the Group's balance sheet include the continued functioning of the money and capital markets; successful right-sizing of the Group's balance sheet; the repayment of the Government Credit Guarantee Scheme facilities in accordance with the agreed terms; no more than limited further deterioration in the UK's and the Group's credit rating; and no significant or sudden withdrawal of deposits resulting in increased reliance on money markets. Additionally, the Group has entered into a number of EU state aid related obligations to achieve reductions in certain parts of its balance sheet by the end of 2014. These are assumed within the Group's funding plan. The requirement to meet this deadline may result in the Group having to provide funding to support these asset reductions and/or disposals and may also result in a lower price being achieved.

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Liquidity and funding (continued)

Group funding position

	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change %
Funding Requirement			
Loans and advances to customers1	568.1	589.5	(4)
Loans and advances to banks2	9.0	10.5	(14)
Debt securities	15.5	25.7	(40)
Available-for-sale financial assets – secondary3	16.2	25.7	(37)
Cash balances4	3.2	3.6	(11)
Funded assets	612.0	655.0	(7)
On balance sheet primary liquidity assets5			
Reverse repos	23.3	7.3	
Balances at central banks – primary4	52.0	34.5	51
Available-for-sale financial assets – primary	16.6	17.3	(4)
Held to maturity	7.8	7.9	(1)
Trading and other financial assets	1.2	–	
	100.9	67.0	51
Other assets6	266.1	270.5	(2)
Total Group assets	979.0	992.5	(1)
Less: Other liabilities6	(228.6)	(232.3)	
Funding requirement	750.4	760.2	(1)
Funded by			
Customer deposits7	394.9	382.5	3
Wholesale funding	295.6	298.0	(1)
Group funding	690.5	680.5	1
Repos	14.4	35.1	(59)
Total equity	45.5	44.6	(2)
Total funding	750.4	760.2	(1)

1 Excludes £19.7 billion (31 December 2010: £3.1 billion) of reverse repos.
2 Excludes £15.3 billion (31 December 2010: £15.6 billion) of loans and advances to banks within the insurance businesses and £3.9 billion (31 December 2010: £4.2 billion) of reverse repos.
3 Secondary liquidity assets comprise a diversified pool of highly rated unencumbered collateral (including retained issuance).
4 Cash balances and Balances at central banks – primary are combined in the Group's balance sheet.
5 Primary liquidity assets are FSA eligible liquid assets including UK Gilts, US Treasuries, Euro AAA government debt and unencumbered cash balances held at central banks.
6 Other assets and other liabilities primarily include balances in the Group's insurance businesses and the fair value of derivative assets and liabilities.
7 Excluding repos of £5.0 billion (31 December 2010: £11.1 billion).

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Liquidity and funding (continued)

Group funding by type

	As at 30 June 2011 £bn	As at 30 June 2011 %	As at 31 Dec 2010 £bn	As at 31 Dec 2010 %
Deposits from banks1	21.9	3.2	26.4	3.9
Debt securities in issue:1				
Certificates of deposit	46.4	6.7	42.4	6.2
Commercial paper	27.3	4.0	32.5	4.8
Medium-term notes2	86.6	12.5	87.7	12.9
Covered bonds	39.1	5.6	32.1	4.7
Securitisation	37.1	5.4	39.0	5.7
	236.5	34.2	233.7	34.3
Subordinated liabilities1	37.2	5.4	37.9	5.6
Total wholesale funding3	295.6	42.8	298.0	43.8
Customer deposits	394.9	57.2	382.5	56.2
Total Group funding4	690.5	100.0	680.5	100.0

1 A reconciliation to the Group's balance sheet is provided on page 59.
2 Medium term notes include £37.1 billion of funding from the Credit Guarantee scheme.
3 The Group's definition of wholesale funding aligns with that used by other international market participants; including interbank deposits, debt securities in issue and subordinated liabilities.
4 Excluding repos and total equity.

Total wholesale funding is analysed by residual maturity as follows:

	As at 30 June 2011 £bn	As at 30 June 2011 %	As at 31 Dec 2010 £bn	As at 31 Dec 2010 %
Less than one year	151.7	51.3	148.6	49.9
One to two years	29.4	9.9	46.8	15.7
Two to five years	60.6	20.5	52.3	17.6
More than five years	53.9	18.3	50.3	16.8
Total wholesale funding	295.6	100.0	298.0	100.0

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Liquidity and funding (continued)

Term issuance

Going into 2011 the Group anticipated that periods of market volatility (as experienced in 2010) could recur and therefore leave the wholesale markets vulnerable to disruption. To mitigate this, the Group deliberately pre-funded much of the Group's term funding requirement in the first quarter. At the half-year, the Group has completed in excess of three-quarters of its targeted annual wholesale term issuance for 2011 targeting periods when markets were open and receptive to new issues and using a broad mix of products and currencies. As a result of this the Group is in position to be more selective as to which products and markets in which it will participate during the second half of 2011.

	Sterling £bn	US Dollar £bn	Euro £bn	Other currencies £bn	Total £bn
Covered bonds	1.3	–	2.2	–	3.5
Securitisation	1.3	2.1	1.7	0.2	5.3
Medium-term notes	0.2	4.3	2.6	2.5	9.6
Private placements1	2.5	0.4	3.5	0.4	6.8
Total Issuance	5.3	6.8	10.0	3.1	25.2

1 Private placements include structured bonds and term repos.

Liquidity portfolio

The table below illustrates the Group's holding of highly liquid unencumbered assets. This liquidity is available for deployment at immediate notice, subject to complying with regulatory requirements, and is a key component of the Group's liquidity management process.

	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn
Primary liquidity1	100.9	97.5
Secondary liquidity2	117.5	62.4
Total	218.4	159.9

1 Primary liquidity is defined as FSA eligible liquid assets (UK Gilts, US Treasuries, Euro AAA government debt; unencumbered cash balances held at central banks).

2 Secondary liquidity comprises a diversified pool of highly rated unencumbered collateral (including retained issuance).

Following the introduction of the FSA's Individual Liquidity Guidance under ILAS (Individual Liquidity Adequacy Standard), the Group now manages its liquidity position as a coverage ratio (proportion of stressed outflows covered by primary liquid assets) rather than by reference to a quantum of liquid assets; the liquidity position reflects a buffer over the regulatory minimum. The Group receives no recognition under ILAS for assets held for secondary liquidity purposes.

In addition to primary liquidity holdings the Group has significant capacity to apply for the Discount Window facility in the event of future liquidity problems.

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Liquidity and funding (continued)

The following tables reconcile figures reported on page 57.

	As at 30 June 2011			
	Included in funding analysis (above) £bn	Repos £bn	Fair value and other accounting methods £bn	Balance sheet £bn
Deposits from banks	21.9	9.4	–	31.3
Debt securities in issue	236.5	–	(5.3)	231.2
Subordinated liabilities	37.2	–	(1.6)	35.6
Total wholesale funding	295.6	9.4		
Customer deposits	394.9	5.0	–	399.9
Total	690.5	14.4		

	As at 31 December 2010			
	Included in funding analysis (above) £bn	Repos £bn	Fair value and other accounting methods £bn	Balance sheet £bn
Deposits from banks	26.4	24.0	–	50.4
Debt securities in issue	233.7	–	(4.8)	228.9
Subordinated liabilities	37.9	–	(1.7)	36.2
Total wholesale funding	298.0	24.0		
Customer deposits	382.5	11.1	–	393.6
Total	680.5	35.1		

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Credit risk – Group

As at 30 June 2011	Loans and advances to customers £m	Impaired loans £m	Impaired loans as a % of closing advances %	Impairment provisions1 £m	Impairment provisions as a % of impaired loans %
Retail	362,441	9,390	2.6	3,003	32.0
Wholesale	143,983	29,249	20.3	12,811	43.8
Commercial	29,694	2,993	10.1	933	31.2
Wealth and International	64,119	23,836	37.2	12,824	53.8
Hedging and other items	20,176	–	–	–	–
	620,413	65,468	10.6	29,571	45.2
Impairment provisions	(29,571)				
Fair value adjustments	(2,999)				
Total Group	587,843				
As at 31 December 2010					
Retail	368,981	9,750	2.6	3,096	31.8
Wholesale	158,002	31,658	20.0	14,863	46.9
Commercial	29,649	2,856	9.6	992	34.7
Wealth and International	66,368	20,342	30.7	10,684	52.5
Hedging and other items	3,378	–	–	–	–
	626,378	64,606	10.3	29,635	45.9
Impairment provisions	(29,635)				
Fair value adjustments	(4,146)				
Total Group	592,597				

1 Impairment provisions include collective unimpaired provisions.

Total impairment charge	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change %	Half-year to 31 Dec 2010 £m
Retail	1,173	1,335	12	1,412
Wholesale	1,557	2,801	44	1,263
Commercial	160	190	16	192
Wealth and International	2,532	2,228	(14)	3,760
Total impairment charge	5,422	6,554	17	6,627

Total impairment charge comprises:

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change %	Half-year to 31 Dec 2010 £m

Total impairment losses on loans and advances to customers	5,369	6,499	17	6,459
Loans and advances to banks	–	(6)		(7)
Debt securities classified as loans and receivables	17	15	(13)	42
Available-for-sale financial assets	32	49	35	66
Other credit risk provisions	4	(3)		67
Total impairment charge	5,422	6,554	17	6,627

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Credit risk – Group (continued)

Overview

- The Group achieved a reduction in its impairment charge in the first half of 2011 to £5,422 million (from £6,554 million in the first half of 2010 and £6,627 million in the second half of 2010), due to the stabilisation of the UK economic environment (including UK corporate real estate prices), together with continued low UK interest rates and effective portfolio management.

- Prudent, 'through the cycle' credit policies and procedures are in place throughout the Group, focusing on development of enduring client relationships. As a result of this approach, the credit quality of new lending remains strong. Very little new origination took place outside the UK.

- The Group's current level of impairment is being managed successfully in the current challenging economic environment by the Wholesale business support units and Retail collection and recovery units.

- The Group's exposure to Ireland is being closely managed. In the first half, we have taken additional provisions in Ireland due to further falls in the commercial real estate market as previously anticipated. We believe that further vulnerability exists. A dedicated UK-based business support team is in place to manage the winding down of the Irish book.

Outlook – Group

Based on its latest economic assumptions of a continued modest UK recovery from recession, as set out on page 53, the Group expects an improved impairment charge in 2011 compared with 2010. However, there are material downside risks to impairment charges, with a number of factors potentially causing cashflow stress and higher levels of default amongst wholesale customers into 2012. These include, in the UK, fragile consumer and business confidence, potential interest rate and inflation rises and reduced consumer spending. A 'double-dip' scenario – a second shallower recession following closely the one from which the economy is just emerging – also remains a downside risk. This is because it would result in further significant increases in corporate failures and unemployment during late 2011 and through 2012, as well as causing a second period of falling prices for residential and commercial property and a likely rise in tenant defaults.

Downside risks from financial market instability are also significant. Uncertainty over the best way forward for highly indebted Eurozone countries could keep financial markets volatile and the risk of contagion to other Eurozone countries is unlikely to dissipate near term.

The Group continues to monitor closely liquidity and economic conditions in its key overseas markets of Ireland and Australasia. In Ireland, the fragility of the economy and political system could still cause further credit quality deterioration within the Group's book as it winds down. Australia, while benefiting from a commodities export boom, continues to be affected by deteriorating property markets in the geographic areas and property classes where the Group is exposed.

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Credit risk – Group (continued)

Exposures to selected eurozone countries
On 15 July 2011 the European Banking Authority (EBA) announced the results of its EU-wide stress test conducted in cooperation with the FSA, the European Central Bank, the European Commission and the European Systemic Risk Board. The EU-wide stress test, carried out across 90 banks covering over 65 per cent of the EU banking system total assets, sought to assess the resilience of European banks to severe shocks and their specific solvency in hypothetical stress events under certain restrictive conditions. The Group's core tier 1 capital ratio, when stressed in accordance with the EBA's defined methodology, at 7.7 per cent, remains well above the capital benchmark required.

At about the same time as the EBA announcement, the FSA published draft proposals for disclosures to be made by UK banks at 30 June 2011 on direct sovereign debt and related exposures, to be shown by reference to accounting values; the Group has sought to adopt these proposals.

The Group has direct exposure to certain European countries which have been identified on the basis of their higher bond yields compared to the rest of the Eurozone and the UK – Belgium, Greece, Ireland, Italy, Portugal and Spain. This is consistent with the countries recommended for disclosure by the FSA.

The Group manages its exposures to individual countries through authorised country limits which take into account economic, financial, political and social factors. In addition the Group manages its indirect risks to the selected countries by establishing and monitoring risk limits for individual banks and financial institutions outside of these countries where they have direct exposures to the selected countries. The profiles of these banks and financial institutions are monitored on a regular basis and exposures managed accordingly.

Sovereigns, banking groups and asset-backed securities

As at 30 June 2011	Direct sovereign	Banking groups	Asset-backed securities	Total
	£m	£m	£m	£m
Belgium	87	318	–	405
Greece	–	–	70	70
Ireland	–	366	373	739
Italy	35	1,780	48	1,863
Portugal	–	241	424	665
Spain	67	2,136	450	2,653
Total	189	4,841	1,365	6,395

Approximately half of the overall positions of £6.4 billion relate to structures where there are underlying assets securing the obligations (ABS or Covered Bonds); the balance are generally floating rate notes or short term unsecured money market exposures or general banking facilities.

Direct sovereign (including central banks)
As at 30 June 2011, the Group had minimal exposure, in aggregate, which could be considered to be direct recourse to the sovereign risk of Belgium, Greece, Ireland, Italy, Portugal and Spain. This includes the national governments and central banks in these countries. Direct sovereign exposures include those to the Export Credit Agencies for Italy and Spain. Since 2009, the Group has proactively managed and reduced limits and exposures to these countries.

Undrawn committed facilities and contingents total £110 million. Derivatives with sovereigns and sovereign referenced credit default swaps are immaterial.

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Credit risk – Group (continued)

Banking groups

Exposures are to banking groups headquartered in these countries and their major subsidiaries and comprise:

As at 30 June 2011	Fixed and floating rate notes	Covered bonds	Money market, short-term and other exposures	Derivatives	Total
	£m	£m	£m	£m	£m
Belgium	242	–	77	(1)	318
Greece	–	–	–	–	–
Ireland	–	145	220	1	366
Italy	216	–	1,542	22	1,780
Portugal	–	150	90	1	241
Spain	163	1,584	370	19	2,136
Total	621	1,879	2,299	42	4,841

The Fixed and floating rate notes (FRNs) are all classified as available-for-sale financial assets and have an overall weighted maturity of less than two years. They are all rated A- or better. Further, in respect of the Spanish exposures a quarter matures in the autumn and the balance is government guaranteed. They are shown at fair value with a charge of £6 million having been taken to available-for-sale reserves; no impairments have been recognised. There have been significant reductions in FRN positions during the first half of 2011 from £2,701 million at 31 December 2010 to £621 million at 30 June 2011. The reductions have been a result of asset sales and maturities.

The covered bonds are ultimately secured on a pool of mortgage assets in the countries concerned; 80 per cent are AA- rated or better. The bonds benefit from over-collateralisation and are all classified as available-for-sale financial assets, with an overall weighted maturity of approximately five years. They are shown at fair value with a charge of £262 million having been taken to available-for-sale reserves; no impairments have been recognised.

Money market, short-term and other exposures are to major banks in the countries concerned. These are predominantly short-term and include general banking facilities, money market and repo facilities. No impairments are held against these exposures. In addition there are unutilised money market lines and repo facilities of approximately £2.5 billion predominantly in respect of Spanish and Italian banks. Bank limits have been closely monitored with amounts and tenors reduced where appropriate. Of the exposures:

- Italy – approximately 90 per cent of the exposure is to institutions rated at least A-.
- Spain – approximately 80 per cent of the exposure is to institutions rated at least A-.

Derivatives are shown at fair value adjusted where master netting agreements exist and net of collateral of £191 million. There are no credit default swap positions in place where the counterparty bank is domiciled in one of the selected Eurozone countries. There are credit default swap positions referenced to banking groups domiciled in Italy (net long of £10 million) and Spain (net long of £2 million and net short of £6 million).

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Credit risk – Group (continued)

Asset-backed securities

Asset-backed securities where the underlying assets are located in the countries concerned are analysed between those which are included in loans and receivables and those which are included in available-for-sale financial assets. In the majority of cases the underlying assets are residential mortgages and the securities are predominantly A rated or higher.

As at 30 June 2011	Loans and receivables		Available-for-sale financial assets		Weighted average maturity
	Current carrying value	Fair value	Current carrying value	Total carrying value	Years
	£m	£m	£m	£m	
Belgium	–	–	–	–	–
Greece	36	23	34	70	6
Ireland	170	135	203	373	