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

FORM 6-K

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

04 August 2011

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

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

(Address of principal executive offices)

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

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

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

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

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

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 04 August 2011

re: 2011 Half-Year Results

Lloyds Banking Group plc

2011 Half-Year Results
News Release
4 August 2011

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 136 to 175. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2011 results with 2010 is of limited benefit.

Combined businesses basis

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

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

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

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

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

During 2011, the Group has reassessed its non-core activities and a number of portfolio changes have been made within the Wholesale, Commercial and International portfolios; it is not intended that any further changes will be made to the composition of these non-core portfolios. The disclosures for the half-years ended 30 June 2010 and 31 December 2010 have been restated on this basis.

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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KEY HIGHLIGHTS

'We delivered a resilient first half performance, despite the ongoing challenges of economic and regulatory uncertainty, and have made substantial progress in restructuring and de-risking the Group. I expect the actions we are taking, as detailed in our Strategic Review announcement, to enable us to create a high performance organisation over time and deliver the best from our franchise for both our customers and our shareholders.'

António Horta-Osório
Group Chief Executive

FURTHER PROGRESS IN THE HALF-YEAR IN REDUCING THE GROUP'S RISK

- £31 billion reduction in non-core assets to £162 billion.
- Excellent progress against term funding objectives with £25 billion of wholesale term issuance in the half.
- Further growth in customer relationship deposits of 3 per cent.
- Total customer balances of £963 billion (31 December 2010: £972 billion), primarily reflecting non-core asset reduction, partly offset by deposit growth.
- Loan to deposit ratio of 144 per cent (31 December 2010: 154 per cent).
- Accelerated £60 billion reduction in government and central bank facilities to £37 billion.
- Robust core tier 1 capital ratio of 10.1 per cent, broadly unchanged since the year end.

RESILIENT COMBINED BUSINESSES PERFORMANCE, IN LINE WITH OUR EXPECTATIONS

- Performance reflects subdued UK economy, further risk reduction, and high wholesale funding costs.
- Profit before tax of £1,104 million (first half of 2010: £1,603 million).
- Underlying profit before tax (excluding liability management and ECN effects totalling £851 million) increased 36 per cent to £1,340 million (first half of 2010: £988 million).
- Core business profit before tax of £2,660 million (first half of 2010: £3,691 million).
- Underlying total income, net of insurance claims, decreased by 12 per cent to £10,414 million, due to non-core asset reduction and subdued lending markets. Excluding losses on disposal of treasury assets of £670 million, underlying total income fell 7 per cent principally as a result of a 6 per cent decrease in average interest-earning assets.
- Banking net interest margin of 2.07 per cent (second half of 2010: 2.12 per cent), reflecting continued high funding costs, repayment of government and central bank facilities, and competitive deposit markets.
- Costs slightly down. Underlying cost:income ratio of 51.2 per cent (first half of 2010: 45.8 per cent).
- Integration programme on track to deliver annual run-rate savings of £2 billion by the end of 2011.

- Further 17 per cent reduction in the impairment charge to £5,422 million.

STATUTORY RESULTS INCLUDE PPI PROVISION

- Statutory loss before tax of £3,251 million (first half of 2010: profit of £1,296 million), after £3,200 million PPI provision.
- Loss attributable to equity shareholders of £2,305 million (first half of 2010: profit of £596 million).
- Loss per share of 3.4 pence (first half of 2010: earnings per share of 0.9 pence).

SUPPORTING THE UK'S ECONOMIC RECOVERY

- On track to deliver full year contribution to Merlin lending agreement; £21.2 billion of committed gross lending to businesses in first half, of which £6.7 billion for SMEs.

2011 GUIDANCE AND 2014 FINANCIAL TARGETS UNCHANGED

- No change to 2011 guidance and 2014 financial targets as set out in Strategic Review announcement.
- Continue to monitor economic conditions closely, and remain mindful of regulatory challenges.
- Well positioned to realise the Group's full potential over time, and to achieve strong, stable and sustainable returns for shareholders.

SUMMARY OF RESULTS

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				
Total income, net of insurance claims	10,854	12,591	(14)	12,365
Total operating expenses	(9,628)	(5,811)	(66)	(7,459)

Trading surplus	1,226	6,780	(82)	4,906
Impairment	(4,491)	(5,423)	17	(5,529)
(Loss) profit before tax	(3,251)	1,296		(1,015)
(Loss) profit attributable to equity shareholders	(2,305)	596		(916)
(Loss) earnings per share	(3.4)p	0.9p		(1.3)p
Combined businesses basis (note 1, page 80)				
Total income, net of insurance claims	10,178	12,481	(18)	10,963
Underlying total income, net of insurance claims1	10,414	11,866	(12)	11,775
Operating expenses2	(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
Underlying profit before tax1	1,340	988	36	1,421
Banking net interest margin	2.07%	2.08%		2.12%
Banking asset margin	1.43%	1.55%		1.57%
Banking liability margin	1.05%	0.98%		0.97%
Cost:income ratio2,3	52.4%	43.5%		50.1%
Underlying cost:income ratio1,2,3	51.2%	45.8%		46.6%
Impairment as a % of average advances4	1.77%	2.01%		2.02%
Combined businesses basis - core				
Total income, net of insurance claims	9,250	10,571	(12)	9,062
Underlying total income, net of insurance claims	9,486	9,956	(5)	9,874
Operating expenses	(4,860)	(4,908)	1	(4,976)
Trading surplus	4,390	5,663	(22)	4,086
Impairment	(1,636)	(1,653)	1	(1,959)
Profit before tax	2,660	3,691	(28)	2,071
Underlying profit before tax	2,896	3,076	(6)	2,883
Banking net interest margin	2.35%	2.28%		2.33%
Cost:income ratio3	52.5%	46.4%		54.9%
Underlying cost:income ratio1,3	51.2%	49.3%		50.4%
Impairment as a % of average advances4	0.72%	0.70%		0.81%

1 Excluding a reduction in the fair value of the equity conversion feature of the Group's Enhanced Capital Notes of £236 million (half-year to 30 June 2010: gain of £192 million; half-year to 31 December 2010: reduction of £812 million) and, in the half-year to 30 June 2010, liability management gains of £423 million.

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

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 repo transactions, gross of allowance for impairment losses.

SUMMARY OF RESULTS (continued)

Capital and balance sheet	As at 30 June	As at	Change since

	2011	31 Dec 2010	31 Dec 2010 %
Statutory			
Loans and advances to customers1	£587.8bn	£592.6bn	(1)
Customer deposits2	£399.9bn	£393.6bn	2
Loans and advances to customers excl reverse repurchase agreements (repos)	£568.1bn	£589.5bn	(4)
Customer deposits excl repos	£394.9bn	£382.5bn	3
Total customer balances3	£963.0bn	£972.0bn	(1)
Loan to deposit ratio4	144%	154%	
Funds under management5	£193.3bn	£192.0bn	1
Wholesale funding (see page 96)	£295.6bn	£298.0bn	(1)
Wholesale funding >1 year maturity	49%	50%	
Funded assets (see page 95)	£612.0bn	£655.0bn	(7)
Primary liquidity portfolio (see page 95)	£100.9bn	£97.5bn	3
Risk-weighted assets	£383.3bn	£406.4bn	(6)
Core tier 1 capital ratio	10.1%	10.2%	
Net tangible assets per share	57.2p	59.2p	
Leverage ratio	18 times	17 times	
Core			
Loans and advances to customers excl reverse repos	£443.3bn	£454.2bn	(2)
Reverse repos	£19.7bn	£3.1bn	
Loans and advances to banks	£27.9bn	£29.9bn	(7)
Debt securities	£0.2bn	£0.3bn	(33)
Available-for-sale financial assets	£19.7bn	£20.9bn	(6)
Other assets	£305.8bn	£289.5bn	6
Total core assets	£816.6bn	£797.9bn	2
Customer deposits excl repos	£390.4bn	£377.0bn	4
Total customer balances	£833.7bn	£831.2bn	
Loan to deposit ratio4	114%	120%	
Risk-weighted assets	£254.6bn	£262.5bn	(3)
Non-core			
Loans and advances to customers excl reverse repos	£124.8bn	£135.3bn	(8)
Loans and advances to banks	£0.3bn	£0.4bn	(25)
Debt securities	£15.3bn	£25.4bn	(40)
Available-for-sale financial assets	£13.1bn	£22.1bn	(41)
Other assets	£8.9bn	£10.5bn	(15)
Total non-core assets	£162.4bn	£193.7bn	(16)
Customer deposits excl repos	£4.5bn	£5.5bn	(18)
Risk-weighted assets	£128.7bn	£143.9bn	(11)

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 Total customer balances are the aggregate of loans and advances to customers excluding reverse repos and customer deposits excluding repos.

4 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).
5 Funds under management within Wealth and International division.

GROUP CHIEF EXECUTIVE'S STATEMENT

Summary

The Group performed in line with our expectations in the first half of 2011, despite the ongoing challenges of economic and regulatory uncertainty, the effects of which, including subdued loan demand, financial market volatility, and increasing regulatory capital and liquidity requirements, are reflected in these results.

We have taken a series of rapid, focused actions since I became Group Chief Executive on 1 March to strengthen the Group and ensure we are better positioned for the future. These actions included the Strategic Review, the outcome of which was announced on 30 June, in which we set out our UK-focused strategy to support our core customers.

We continue to monitor economic conditions closely, notably in the UK and Eurozone, and remain mindful of the challenges of continuing regulatory uncertainty, particularly ahead of the final report of the Independent Commission on Banking in September.

However, given the actions we have taken and the strategy we are now implementing, we are well positioned to realise over time the full potential of our organisation, brands and capabilities, and to achieve strong, stable and sustainable returns for shareholders.

Results overview

The Group reported a combined businesses profit before tax of £1,104 million in the first half of 2011, with the core business delivering profit before tax of £2,660 million.

While Group combined businesses profit before tax represented a reduction of 31 per cent from £1,603 million in the first half of 2010, when movements in the value of the equity conversion feature of the Enhanced Capital Notes (ECNs) and liability management gains reported in the first half of last year are excluded, combined businesses profit before tax increased by 36 per cent. This primarily reflected, at a divisional level, a significant improvement in Wholesale performance, where profit more than doubled, partly offset by a 20 per cent increase in losses in our International business. The higher International losses mainly reflected an increased impairment charge relating to our Irish portfolio in the first half of this year compared to the same period in 2010, although this charge was a third lower than in the second half of 2010.

In the core business, profit before tax fell 28 per cent, but excluding liability management and ECN effects the decline was 6 per cent, principally as a result of a 5 per cent fall in average interest-earning assets. In the non-core business, reductions in impairment and costs were partly offset by lower income as a result of further non-core asset reductions and resulted in a reduced loss before tax of £1,556 million (first half of 2010: loss of £2,088 million).

On a statutory basis, the Group reported a loss before tax of £3,251 million in the first half of the year, which included a non-recurring provision for Payment Protection Insurance (PPI) contact and redress costs of £3,200 million and a charge for integration costs of £642 million (first half of 2010: £804 million).

Underlying income, which excludes liability management and ECN effects, decreased by 12 per cent. This reflected further non-core asset reductions (including losses on sales of treasury assets of £670 million which were broadly offset by a related accelerated fair value unwind of £649 million), subdued customer lending demand and continued customer deleveraging. Our net interest margin was 2.07 per cent, with the decline from 2.12 per cent in the second half of 2010 reflecting continued high wholesale funding costs, the refinancing of a significant amount of government

and central bank facilities, and competitive deposit markets.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Operating expenses were slightly down at £5,332 million, with further integration-related savings partly offset by increased employers' National Insurance contributions, and higher VAT, inflation and other costs.

The Group achieved a further reduction in the impairment charge in the first half of 2011, which, at £5,422 million, was 17 per cent lower than in the first half of 2010, with a deterioration in International (principally Ireland) more than offset by improvements elsewhere in the Group, particularly in Wholesale.

Against a backdrop of ongoing economic and regulatory uncertainty, we focused on continuing to reduce the Group's risk profile in the half-year through a further reduction in non-core assets of £31.3 billion to £162.4 billion, and through improving our funding position, with £25 billion of term funding raised in the first half. Together with growth in customer deposits (excluding repos) of 3 per cent in the half-year, these actions facilitated further substantial reductions in liquidity support from government and central bank facilities, with £37.1 billion outstanding at the end of the half against £96.6 billion at the 2010 year end. We also continued to maintain a robust core tier 1 capital ratio, which was broadly unchanged since the 2010 year end at 10.1 per cent.

Our actions since 1 March

Since 1 March, we have taken a series of rapid, focused actions, including a number of strategic initiatives, such as accelerating the retail business disposal required by the EU (Project Verde), and have improved the Group's organisational structure and further strengthened its balance sheet. We have also refocused the Group's franchise on a multi-brand retail strategy, on active support for small and medium-sized enterprises (SMEs), and on improvement in customer satisfaction. A number of these initiatives are described in further detail below.

Management and organisation

Following my appointment, we have strengthened businesses and functions with a number of additions to the Group's Executive Committee (GEC), including Juan Colombás as Chief Risk Officer, Antonio Lorenzo as Director, Wealth and Retail Products and Marketing, and Matt Young as Group Corporate Affairs Director.

We have also made a number of internal appointments who report directly to me and attend GEC including: John Maltby as Managing Director, Commercial; David Nicholson as Managing Director, Halifax Community Bank; Martyn Scrivens as Group Audit Director; and Harry Baines as Company Secretary and General Counsel.

In addition, we have announced a number of other senior appointments who will join the Group shortly: Alison Brittain as Group Director, Lloyds TSB and Bank of Scotland community banks; Toby Strauss as Group Director for Insurance; and, joining early next year, Nathan Bostock as Chief Executive, Wholesale.

We have also put in place a new, more agile organisation to support the implementation of our strategy. The new organisation has a flatter structure, which results in the leadership team being closer to our customers and having improved co-operation between businesses. As part of this new organisation, the heads of the Lloyds TSB and Halifax community banks, and Retail Products and Marketing, now all report directly to me. In order to ensure that the Group provides greater focus on SMEs, the Commercial business, previously part of Wholesale, now also reports directly to me. Also, all divisional functions, such as Finance, Risk, Audit, Human Resources, Legal and Communications, report directly to central functions.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Our commitment to supporting our customers and the UK economic recovery
The Group continues to prioritise active support for the UK's economic recovery, including through the range of services we provide to our business and mortgage customers. We also participate in a wide range of other measures designed to support our customers and the wider economy, both on our own initiative and in participation with industry and Government, including delivering the recommendations of the Business Finance Taskforce.

In addition, 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 we continue to innovate in the market to meet our customers' needs. These efforts are directly reflected in our once again being voted 'Bank of the Year' for businesses, as described in the 'Awards' section of this review. To the end of June 2011, we have provided £21.2 billion of committed gross lending to UK businesses, of which £6.7 billion has been to SMEs.

The year-on-year growth in net advances in our core Commercial business was 2 per cent as at the end of June 2011 which continues to compare favourably with the negative growth in SME lending across the industry reported in the latest available market statistics from the Bank of England.

The Group achieved a market share of over 20 per cent of gross mortgage lending in the first half of 2011, including supporting over 24,000 customers in buying their first home.

As part of our strategy to become the best bank for customers we publicly committed to reduce the level of FSA reportable complaints we receive by 20 per cent, between the first half of 2010 and the first half of 2011, excluding PPI complaints. We achieved a 24 per cent reduction, which has reduced our complaints per 1,000 accounts to only 1.7. This has been accomplished through the success of our phone-a-friend service and the training we have provided to our 40,000 front line colleagues. As a result of these initiatives, we are now resolving over 90 per cent of complaints at first touch.

In the second half of the year we are rolling out an externally accredited complaint handling qualification to all of our complaint handlers, making us the first financial services organisation to have professionally qualified complaint handlers. In addition we are also extending the opening hours of the specialist teams so they can deal with complaints 24 hours a day, 7 days a week, ensuring customers get the right outcome faster.

By putting customers at the heart of our business, we have reached some key milestones and outlined further strategic initiatives to strengthen this commitment. We have made over 100 changes to simplify our systems and processes to help serve our customers more quickly and efficiently. We have enhanced our internet banking offering to enable our retail customers to do more online, and extended the innovative Lloyds TSB Lend a Hand Mortgage to help customers purchase a home with the help of their local authority.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

To strengthen our strategy of being the best bank for SMEs, we launched our Best for Business campaign, reaffirmed our continued support for the SME Charter to respond to 90 per cent of lending appeals within 15 days which will exceed the industry standard of 30 days, and maintained our leading part in the Business Growth Fund which is the latest initiative from the Business Finance Taskforce.

Integration programme on track

Our integration programme is one of the largest ever in financial services. In the first half of 2011, we continued to make excellent progress, and as we near the end of this three year journey we have been particularly focused on the completion of a number of system alignments. Key milestones in the first half included the completion of a programme to move Bank of Scotland ATMs on to the Lloyds TSB platform, the roll-out of an integrated Mortgage Sales Platform to Cheltenham & Gloucester colleagues, and the creation of a single claims management system within our General Insurance business.

We are now in the final stages of the core systems integration which will create single platforms supporting Halifax, Bank of Scotland and Lloyds TSB brands, across savings, current accounts, mortgages, general insurance and life & pensions for our personal customers and lending to small businesses. In the second half of this year we will complete the migration of these customer accounts to these platforms, while continuing to ensure that customers receive a seamless service throughout and colleagues are fully supported.

We achieved £1.75 billion of run-rate cost synergies by the end of the first half, and integration is on track to deliver the promised £2 billion of run-rate cost synergies by the end of this year.

Our strategy to deliver for customers and shareholders

On 30 June, following a detailed and extensive review of our business, we set out our UK-focused strategy to support our core customers and outlined the key actions we will take to deliver strong, stable and sustainable returns for shareholders. Our strategy and our financial targets are summarised in this half-year results announcement; further detail on the outcome of Strategic Review is given in our announcement of 30 June, which is available on our website www.lloydsbankinggroup.com.

As part of our strategy, we will refocus our business portfolio to fit our assets, capabilities and risk appetite. We will focus on attractive UK customer segments, reduce our international presence, and continue our disciplined reduction of non-core assets, to ensure sustainable, predictable returns on equity above our cost of equity.

We will also simplify the Group to improve service and target the delivery of a further £1.5 billion of annual savings in 2014 (£1.7 billion of run-rate savings by end 2014), through better end-to-end processes and IT platforms, a de-layered management structure and simpler legal structure, centralised support functions, and more efficient sourcing and cost control. These savings will be incremental to savings achieved under the integration programme, and will imply the reduction of 15,000 roles throughout the Group by the end of 2014. The total cost of the programme is expected to be approximately £2.3 billion (including capital expenditure), of which around £1.5 billion is expected to be expensed through the income statement and reported outside of the Group's combined businesses results over the next few years.

The cost savings are expected to enable an additional £2 billion of investment over the period 2011 to 2014 to grow our core customer franchise. The annual income statement charge is expected to increase to around £500 million by

2014, equivalent to approximately one-third of the annual expenses benefit from the simplification programme. These investments will include:

- In Retail, we will revitalise Halifax as a leading challenger brand in UK retail banking and invest in Lloyds TSB and Bank of Scotland as leading relationship brands. We have also made a commitment to keep total branch numbers at the same levels (excluding the EU mandated business sale) through the period, and not to offshore further UK permanent operational roles.

- Bancassurancewill be a core part of our proposition, through our multi-brand retail strategy, with a compelling product range and specialised advisor teams to better address our customers' needs.

- In Wealth, we will build our UK proposition for mass affluent, affluent and high net worth customers, and refocus our international business.

- Wholesale'sfocus will be on developing deeper client relationships and building transactional banking and fixed income capabilities to support our UK customers.

- Commercial will continue to focus on SME lending, whilst broadening its offering, on a business and individual basis, across a wider product range to include Wealth and Insurance.

We will also streamline our International presence, from 30 countries to less than half that number, by 2014.

We will continue to strengthen the Group's balance sheet, funding and liquidity position to ensure a robust core tier 1 capital ratio and a stable funding base, to meet the challenges of economic and regulatory uncertainty. We are targeting a core tier 1 capital ratio prudently in excess of 10 per cent in 2013 when the transition period to Basel 3 commences. We have also made a commitment to recommence progressive dividend payments after the EU restriction expires, as soon as the financial position of the Group and market conditions permit, and after regulatory capital requirements are defined and prudently met.

Economic outlook

We expect that a period of subdued economic recovery in the UK will be accompanied by a period of modest growth in our markets, and that this will be sustained for several years. We anticipate continued deleveraging by consumers and businesses, and slow growth in deposits as a result of the pressure on consumers' disposable incomes from ongoing high inflation and cuts in welfare benefits.

We expect UK GDP growth of 1.5 per cent in 2011, normalising above 2 per cent in 2012, with UK base rates increasing from the second half of 2011, unemployment improving from the second half of 2011, and property values stabilising.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Provision for Payment Protection Insurance contact and redress

On 20 April 2011, the High Court dismissed the application of the British Bankers' Association (BBA) to seek judicial review against the Financial Services Authority (FSA) and the Financial Ombudsman Service (FOS) regarding the handling of PPI complaints. After publication of the judgment, the Group entered into discussions with the FSA with a view to seeking clarity around the detailed implementation of the FSA Policy Statement of 10 August 2010, which sets out evidential provisions and guidance on the fair assessment of customer complaints and the calculation of

redress, and concluded that there are certain circumstances where customer contact and/or redress is appropriate. While there remain a number of uncertainties as to the eventual costs from any such contact and/or redress, the Group has made a provision of £3,200 million in the first half of 2011, which has been excluded from the combined businesses results.

Independent Commission on Banking (ICB)

We have considered and responded to the ICB's interim report. We have presented evidence to demonstrate that the UK retail banking market is competitive, with considerable customer churn, a strong intermediary sector, and the growth of the internet channel and comparison sites. The interim report did not identify any significant competition concerns in savings, credit cards, unsecured personal loans and mortgages. On this basis, the ICB's competition concerns appear to be with personal and business current accounts.

We agree with the ICB that improving transparency and the ease of switching are key measures to further improve competition in business and personal current accounts. We are working on switching proposals with the ICB and others including the UK Payments Council, which we consider, when combined with greater transparency, will transform customers' perception and experience of moving their business or personal current accounts.

We are continuing to engage with the ICB and will do so through to the publication of the final report in September. We think this engagement has been constructive, particularly with regard to the Group's EU mandated retail business disposal (Project Verde), and since the ICB's Interim Report, we have made considerable progress in relation to the funding requirements of the Verde business.

The Verde business will have strong brands, a branch network of a similar size to that of the Halifax Community Bank and a full product range including savings, loans, credit cards and mortgages as well as current accounts. We believe that Verde will be a strong competitor in UK retail banking.

The Group has received a number of credible initial approaches for the Verde business and we are working closely with the potential buyers with the aim of identifying a purchaser by the end of the year.

In terms of financial stability, we believe a 'multi-pillar approach' consisting of improved recovery and resolution (including ring-fencing), better regulation and improved capital and liquidity requirements will significantly improve financial stability. We have discussed with the ICB the possible cost and the potential impact on the banking sector's capacity to support the economy's recovery and its long run growth potential.

As such, we believe a thorough analysis of the costs and benefits of the different reforms - alone and in combination - is required. The conclusions from such analysis should allow regulators to find the optimum level of reform that ensures the appropriate flow of credit to the economy and safeguards economic growth.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Our people

We are committed to making the Group the best bank for our people, one where all colleagues are proud to work, and one which takes its commitments to customers, colleagues and our communities seriously. We are fortunate to have high-quality committed people across the organisation whose capabilities will support us in delivering our strategy. The Strategic Review had the additional advantage of aligning all of our senior leadership group and their teams firmly behind its initiatives.

We take the training and development of our people very seriously and are strengthening our learning and development resources that everyone in the Group can access, for example, through our academies programme.

We also value feedback from our colleagues, and are putting in place a new survey aligned to our strategy and commitments to our customers. From this, we expect to gain vital feedback on how well we are delivering on what we have set out to do for the Group.

Finally, we recognise that our colleagues regularly go beyond what is expected both professionally and in their activities outside of work and we have several award schemes to recognise the extraordinary efforts they make more broadly for our customers and communities.

Awards

I am very pleased with the significant number of awards Lloyds Banking Group received in the first half of this year, and am particularly proud of the broad range of external recognition achieved across the Group. This reflects the outstanding contribution of our people right across the Group, as we strive to be the best bank for our customers.

The awards we have received so far this year include 'Bank of the Year' at the Real FD/CBI Excellence Awards, which we have won for the seventh year running in recognition of our continued support of UK businesses; 'Best UK Private Bank of the Year' at the Financial Times and Investors Chronicle Wealth Management Awards, recognising Bank of Scotland Private Banking's commitment to customers; and five awards at the Euroweek awards for our funding achievements.

Our long-running commitment to community investment was also recognised, including the Group being awarded the Business in the Community 'CommunityMark' recognising excellence in community investment, and a Platinum rating in the Corporate Responsibility Index, a benchmark as to how well companies integrate responsible business practices.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Outlook

Our guidance given in our Strategic Review announcement on 30 June 2011 remains unchanged. Further detail on our 2011 guidance and 2014 financial targets is given in the Group Finance Director's Review of Financial Performance and Outlook.

We continue to monitor economic conditions closely, notably in the UK and Eurozone, and remain mindful of the challenges of continuing regulatory uncertainty, particularly ahead of the final report of the Independent Commission on Banking in September.

Given the series of rapid, focused actions we have taken since March, and the progress made in the half-year in strengthening our balance sheet, we are well positioned to realise over time the full potential of our organisation, brands and capabilities, and to achieve strong, stable and sustainable returns for shareholders.

António Horta-Osório
Group Chief Executive

COMBINED BUSINESSES INFORMATION

The analysis and commentary that is set out on pages 13 to 88 is presented on a combined businesses basis. The basis of preparation of the combined businesses results is set out on page 80.

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COMBINED BUSINESSES CONSOLIDATED INCOME STATEMENT

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Net interest income	6,378	6,911	6,911
Other income	3,998	5,831	4,333
Total income	10,376	12,742	11,244
Insurance claims	(198)	(261)	(281)
Total income, net of insurance claims	10,178	12,481	10,963
Costs:			
Operating expenses	(5,332)	(5,435)	(5,493)
Impairment of tangible fixed assets	-	(150)	-
	(5,332)	(5,585)	(5,493)
Trading surplus	4,846	6,896	5,470
Impairment	(5,422)	(6,554)	(6,627)
Share of results of joint ventures and associates	12	(62)	(29)

(Loss) profit before tax and fair value unwind	(564)	280	(1,186)
Fair value unwind	1,668	1,323	1,795
Profit before tax - combined businesses	1,104	1,603	609

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

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

	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 86)	(177)	(199)	505
Amortisation of purchased intangibles	(289)	(323)	(306)
Customer goodwill payments provision	-	-	(500)
Pension curtailment gain (loss) (note 4, page 153)	-	1,019	(109)
Payment protection insurance provision (note 22, page 165)	(3,200)	-	-
EU mandated retail business disposal costs	(47)	-	-
Loss on disposal of businesses	-	-	(365)
(Loss) profit before tax - statutory	(3,251)	1,296	(1,015)

COMBINED BUSINESSES CONSOLIDATED INCOME STATEMENT

Core	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Net interest income	5,353	5,614	5,420
Other income	4,095	5,218	3,923
Total income	9,448	10,832	9,343
Insurance claims	(198)	(261)	(281)
Total income, net of insurance claims	9,250	10,571	9,062
Costs:			
Operating expenses	(4,860)	(4,908)	(4,976)
Impairment of tangible fixed assets	-	-	-
	(4,860)	(4,908)	(4,976)
Trading surplus	4,390	5,663	4,086
Impairment	(1,636)	(1,653)	(1,959)
Share of results of joint ventures and associates	3	2	12

Profit before tax and fair value unwind	2,757	4,012	2,139
Fair value unwind	(97)	(321)	(68)
Profit before tax - core	2,660	3,691	2,071
Non-core			
Net interest income	1,025	1,297	1,491
Other income	(97)	613	410
Total income	928	1,910	1,901
Insurance claims	-	-	-
Total income, net of insurance claims	928	1,910	1,901
Costs:			
Operating expenses	(472)	(527)	(517)
Impairment of tangible fixed assets	-	(150)	-
	(472)	(677)	(517)
Trading surplus	456	1,233	1,384
Impairment	(3,786)	(4,901)	(4,668)
Share of results of joint ventures and associates	9	(64)	(41)
Loss before tax and fair value unwind	(3,321)	(3,732)	(3,325)
Fair value unwind	1,765	1,644	1,863
Loss before tax - non-core	(1,556)	(2,088)	(1,462)
Profit before tax - combined businesses	1,104	1,603	609

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

COMBINED BUSINESSES PROFIT (LOSS) ANALYSIS BY DIVISION

	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
Wholesale	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.

COMBINED BUSINESSES PROFIT (LOSS) ANALYSIS BY DIVISION (continued)

Core	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Retail	1,986	2,209	1,934
Wholesale	1,004	1,264	891
Commercial	250	141	169
Wealth and International	150	127	98
Insurance	520	444	524
Group Operations and Central items	(1,250)	(494)	(1,545)
Profit before tax - core	2,660	3,691	2,071
Non-core			
Retail	214	286	287
Wholesale	425	(679)	1,442
Commercial	12	16	13
Wealth and International	(2,230)	(1,736)	(3,313)
Insurance	23	25	109
Group Operations and Central items	-	-	-
Loss before tax - non-core	(1,556)	(2,088)	(1,462)
Profit before tax - combined	1,104	1,603	609

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE AND OUTLOOK

Performance in line with our expectations

In the first half of 2011, the Group delivered a combined businesses performance in line with our expectations. The fall in underlying income reflected a smaller balance sheet primarily driven by a further reduction of non-core assets, and a lower net interest margin than in the second half of 2010, mainly as a result of continued high wholesale funding costs, the refinancing of a significant amount of government and central bank facilities and competitive deposit markets. Costs were slightly down, as further gains from integration were mostly offset by higher employers' National Insurance contributions, VAT, inflation and other costs. The impairment charge reduced, as improvements in Wholesale and Retail more than offset the higher impairment charge in Ireland. We continued to further strengthen our balance sheet, by increasing customer deposits, making excellent progress against our funding objectives and on the continued reduction of non-core assets, allowing a substantial repayment of government and central bank facilities. Our core tier 1 capital ratio stands at 10.1 per cent (31 December 2010: 10.2 per cent), with the effect of the £3,200 million provision relating to Payment Protection Insurance (PPI), which has been excluded from our combined businesses results, largely offset by a reduction in risk-weighted assets of £23 billion.

On a combined businesses basis, profit before tax decreased to £1,104 million in the first half of 2011, compared to £1,603 million in the first half of 2010, a reduction of 31 per cent. This reflected the absence this year 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 (ECNs) in the first half of 2011, compared to gains of £192 million in the first half of 2010 ('liability management and ECN effects'). Excluding these effects, combined businesses profit before tax increased by 36 per cent, with a significant improvement in Wholesale performance partly offset by an increased loss in our International business.

Retail profit before tax decreased to £2,200 million from £2,495 million in the first half of 2010, primarily driven by higher funding costs and continued subdued demand for credit. Wholesale increased profit before tax to £1,429 million in the first half of 2011, compared to £585 million in the first half of 2010, mainly as a result of a significant reduction in the impairment charge. Commercial profit before tax increased to £262 million, compared to £157 million in the first half of 2010, largely reflecting increased deposit balances and lower impairment. Wealth and International reported a loss before tax of £2,080 million compared to a £1,609 million loss in the first half of 2010, primarily due to a higher impairment charge predominantly relating to the Irish portfolio. Insurance profit before tax increased to £543 million in the first half of 2011 compared to £469 million in the first half of 2010, which after excluding a non-recurring charge of £70 million in the first half of 2010 was broadly flat. The benefits of the change in mix towards more profitable protection business in Life, Pensions and Investments and improved claims experience in General Insurance were offset by lower PPI income and lower income from reduced shareholder net assets. Group Operations and Central items made a loss before tax of £1,250 million compared to a loss of £494 million in the first half of 2010, primarily due to an absence of gains on liability management, an adverse change in the mark-to-market valuation of the equity conversion feature on the ECNs and a decrease in the fair value of derivatives not mitigated through hedge accounting.

Statutory loss before tax was £3,251 million in the first half of the year. While this was a reduction from £1,296 million profit before tax in the first half of 2010, the loss in the first half of 2011 principally reflected the PPI provision of £3,200 million. The reduction from the first half of 2010 also reflects liability management and ECN effects and the pension curtailment gain of £1,019 million in the first half of 2010, partially offset by lower integration costs. After a tax credit of £973 million (see note 7 on page 155) and after allowing for profit attributable to non-controlling interests of £27 million, the loss attributable to equity shareholders was £2,305 million and the loss per share amounted to 3.4 pence.

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

To enable a better understanding of the Group's core business trends and outlook, we have provided an enhanced disclosure on the split of our core and non-core businesses including more detailed cost and divisional financial information.

Core and non-core profit before tax

	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
Core	2,660	3,691	(28)	2,071
Non-core	(1,556)	(2,088)	25	(1,462)
Total	1,104	1,603	(31)	609

Core business profit before tax was £2,660 million compared to £3,691 million in the first half of 2010. Excluding liability management and ECN effects, core business profit before tax decreased by 6 per cent, principally reflecting higher funding costs and a decline in average interest-earning assets as a result of subdued market conditions. Non-core loss before tax was £1,556 million (first half of 2010: £2,088 million), with the improvement principally driven by reductions in impairment and costs, partly offset by lower income as a result of further non-core asset reductions.

Further progress in reducing the Group's risk

We continued to further reduce the inherent risk in our balance sheet in line with our strategy. We maintained a robust core tier 1 capital ratio and liquidity position and made further significant improvements in our funding position during the half-year. Our core tier 1 capital ratio stands at 10.1 per cent (31 December 2010: 10.2 per cent), and our loan to deposit ratio, excluding repos, improved to 144 per cent (31 December 2010: 154 per cent), and to 114 per cent in our core business (31 December 2010: 120 per cent). We also made substantial further progress in reducing liquidity support from government and central bank facilities, which reduced from £96.6 billion at 31 December 2010 to £37.1 billion at 30 June 2011. This was achieved through excellent progress in term wholesale funding issuance during the first half of the year, which totalled £25 billion, further growth of 3 per cent in customer deposits (excluding repos) and the reduction in our non-core assets.

We also continue to closely monitor and control our exposures to certain European countries. The Group's aggregate direct exposure to the national and local governments of Spain, Italy, Portugal, Ireland, Greece and Belgium totalled £189 million. Further information on our exposures to these countries, including to banking groups, asset backed securities, and corporate, retail and other exposures, is given on pages 103 to 106 of this release.

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

Combined businesses results summary - income

	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	6,378	6,911	(8)	6,911
Other income:				
Underlying other income	4,234	5,216	(19)	5,145
Liability management gains	-	423		-
	(236)	192		(812)

Change in fair value of equity conversion feature of ECNs				
	3,998	5,831	(31)	4,333
Total income	10,376	12,742	(19)	11,244
Insurance claims	(198)	(261)	24	(281)
Total income, net of insurance claims	10,178	12,481	(18)	10,963
Underlying income				
Net interest income	6,378	6,911	(8)	6,911
Underlying other income	4,234	5,216	(19)	5,145
Insurance claims	(198)	(261)	24	(281)
Underlying income, net of insurance claims	10,414	11,866	(12)	11,775

Group income performance

Total income, net of insurance claims, decreased by 18 per cent to £10,178 million, with the change including a £428 million increase in the mark-to-market losses arising from the equity conversion feature of the Group's Enhanced Capital Notes. The total mark-to-market loss relating to the ECNs in the first half of 2011 was £236 million, and comprised a loss of £398 million in the first quarter of the year and a gain of £162 million in the second quarter (first half of 2010: £192 million gain). In addition, liability management gains arose on transactions undertaken in the first half of 2010 as part of the Group's management of capital which exchanged certain debt securities for ordinary shares or other debt instruments. These transactions resulted in a gain of £423 million in the first half of 2010 with no comparable transactions in the first half of 2011.

Underlying income, net of insurance claims, decreased by 12 per cent reflecting further asset sales, including losses on disposals of treasury assets of £670 million which were broadly offset by a related accelerated fair value unwind of £649 million, subdued lending demand and continued customer deleveraging. Excluding the losses on disposals of treasury assets, underlying income fell 7 per cent, principally as a result of a 6 per cent reduction in average interest-earning assets.

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

Group net interest income decreased by £533 million, or 8 per cent, to £6,378 million. The net interest margin in our banking businesses was 2.07 per cent, with the decline from 2.12 per cent in the second half of 2010 principally reflecting continued high wholesale funding costs, a competitive deposit market and the effect of refinancing a significant amount of government and central bank facilities. The banking asset margin decreased by 14 basis points to 1.43 per cent, and the banking liability margin increased by 8 basis points to 1.05 per cent, reflecting the change in the cost of deposits relative to wholesale funding rates, compared to the second half of 2010.

Other income decreased by 31 per cent to £3,998 million. Excluding liability management and ECN effects, underlying other income decreased by 19 per cent to £4,234 million. This decrease reflected a targeted reduction in the balance sheet, including the losses on disposals of treasury assets mentioned above. Excluding these losses, underlying other income decreased by 6 per cent.

Core and non-core underlying income performance

	Half-year	Half-year	Change since 30 June	Half-year to 31 Dec

	to 30 June 2011 £m	to 30 June 2010 £m	2010 %	2010 £m
Core	9,486	9,956	(5)	9,874
Non-core	928	1,910	(51)	1,901
Total underlying income, net of insurance claims	10,414	11,866	(12)	11,775

Core and non-core net interest margin

	Half-year to 30 June 2011	Half-year to 30 June 2010	Half-year to 31 Dec 2010
Core	2.35%	2.28%	2.33%
Non-core	1.23%	1.50%	1.52%
Group net interest margin	2.07%	2.08%	2.12%

	Half-year to 30 June 2011 £bn	Half-year to 30 June 2010 £bn	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £bn
Average interest-earning assets - core	454.2	476.0	(5)	468.7
Average interest-earning assets - non-core	150.6	168.7	(11)	161.5
Total average interest-earning assets	604.8	644.7	(6)	630.2

Core underlying income decreased by 5 per cent, principally reflecting subdued new lending demand and continued customer deleveraging.

The 51 per cent fall in non-core underlying income reflects the loss of income as a result of the significant reductions achieved in the non-core portfolio, and the losses on disposals of treasury assets of £670 million in the first half of 2011. Excluding the losses on disposals of treasury assets, non-core underlying income decreased by 16 per cent.

Core net interest margin increased, mainly reflecting the improved funding mix in the core business, with the benefit of increased customer deposits more than offsetting higher wholesale funding costs. Non-core net interest margin decreased, primarily as a result of higher wholesale funding costs and the strain from increased impaired assets.

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

Outlook - income

2011 guidance

We currently expect a Group net interest margin of around 2 per cent for the second half of 2011 which would result in a full year margin just above 2 per cent. We expect non-core reductions to further reduce balance sheet size and therefore income. Full year core income is expected to continue to be slightly down as a result of the lower margin and the reduction in the size of the core balance sheet given the effects of continued customer deleveraging and subdued new lending demand.

2014 targets
In the medium term, we expect to build customer-driven diversified income with additional discretionary investment in core customer franchises. We expect core income to grow faster than nominal GDP growth over the period to the end of 2014, primarily driven by other operating income growth. Other operating income (net of insurance claims) is targeted to increase to approximately 50 per cent of total income by the end of 2014 from 41 per cent in 2010.

By the end of 2014, we are targeting a net interest margin of between 2.15 per cent and 2.30 per cent, based on our current business and macro-economic assumptions, including, as we stated at the time of our Strategic Review announcement on 30 June, that base rates will be lower for longer than we previously anticipated. The core net interest margin is expected to be higher than Group net interest margin by the end of 2014.

We assume that over time, although probably not initially, the Group will benefit from UK base rate increases, and we also recognise that the competition for deposits is currently strong. We expect our reduced wholesale issuance needs to facilitate greater control over our funding costs in the future, with our improved funding position allowing greater flexibility over the mix of funding sources, resulting in tighter issuance spreads. As previously reported, we expect a negative effect on our net interest margin from increasing liquidity requirements.

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

Combined businesses results summary - costs

	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
Operating expenses	5,332	5,435	2	5,493
Impairment of tangible fixed assets1	-	150		-
Total costs	5,332	5,585	5	5,493
Integration synergies run rate	1,750	1,084	61	1,379
Underlying cost:income ratio	51.2%	45.8%		46.6%

1 Further detail is given in note 4, page 153.

Further progress in delivering integration savings
During the first half of 2011, operating expenses decreased by 2 per cent to £5,332 million, mainly as a result of further integration-related savings and lower levels of operating lease depreciation in Wholesale, partially offset by increased employers' National Insurance contributions, and higher VAT, inflation and other costs.

Under legislation, the Group will only become liable to pay the Bank Levy at 31 December 2011 and, as a result, has not accrued for this cost in the first half of 2011. However, we continue to expect the cost of the Bank Levy for the full year to be approximately £260 million. If the Bank Levy had been accrued for in the half, costs would have been broadly flat, excluding the charge for impairment of tangible fixed assets in the first half of 2010.

Our underlying cost:income ratio was 51.2 per cent, with the increase reflecting the reduction in income in the half-year.

We have continued to make significant progress with the integration programme with annual run-rate savings totalling £1,750 million achieved as at 30 June 2011. We are on schedule to deliver run-rate cost synergies and other operating

efficiencies of £2 billion per annum by the end of 2011.

On 1 March 2011, we announced that, in order to meet our obligations under EU state aid commitments and to ensure that we retain maximum flexibility, we would accelerate the start of the retail business disposal as required by the EU (Project Verde). Costs attributable to Project Verde in the first half of 2011 were modest at £47 million and, as previously advised, costs related to the disposal are excluded from combined businesses results.

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

Core and non-core operating expenses

	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
Core				
Operating expenses	4,860	4,908	1	4,976
Underlying cost:income ratio	51.2%	49.3%		50.4%
Non-core				
Operating expenses	472	527	10	517
Impairment of tangible fixed assets	-	150		-
	472	677	30	517

As noted in the basis of presentation on the inside front cover, costs apportioned to non-core represent only those that are expected to cease to be incurred at the point these portfolios, assets, or liabilities are divested or run off, and operational costs are allocated to the core book unless they are directly related to non-core activities. This results in the reported operating costs for the non-core portfolio being lower than would be required to manage these portfolios on a stand-alone basis.

Operating expenses in the core business reduced 1 per cent, with further integration-related savings and lower levels of operating lease depreciation in Wholesale, partially offset by increased employers' National Insurance contributions, and higher VAT, inflation and other costs.

Non-core operating expenses reduced by 10 per cent, reflecting the elimination of certain costs of supporting the non-core portfolios.

Outlook - expenses

As outlined in the Strategic Review, as integration nears completion, we have commenced a simplification programme to deliver further cost savings in the period to the end of 2014, through better end-to-end processes and IT platforms, a de-layered management structure and simpler legal structure, centralised support functions, and a reduction of 15,000 roles.

As advised at the end of June 2011, we expect a slight decline in costs in 2011, due to the benefits from the integration programme and simplification cost actions already being taken, partially offset by costs resulting from the introduction of the Bank Levy (which is expected to cost around £260 million in 2011) and a combined cost in the region of £100 million of the recent rise in VAT and employers' National Insurance contributions.

In order to achieve positive operating jaws from the simplification programme, we are targeting annual cost savings to amount to £1.5 billion in 2014 and run-rate cost savings to be £1.7 billion per annum by the end of 2014. Including the cost of the Bank Levy, the Group is targeting a cost:income ratio of 42 to 44 per cent by the end of 2014 (equivalent to 39 to 41 per cent when adjusted to include the net of operating lease income and depreciation in Group income).

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

Combined businesses results summary - impairment charge

	Half-year to 30 June 2011	Half-year to 30 June 2010	Change since 30 June 2010	Half-year to 31 Dec 2010
	£m	£m	%	£m
Retail				
Secured	295	53		239
Unsecured	878	1,282		1,173
	1,173	1,335	12	1,412
Wholesale	1,557	2,801	44	1,263
Commercial	160	190	16	192
Wealth and International				
Ireland	1,779	1,557	(14)	2,707
Other	753	671	(12)	1,053
	2,532	2,228	(14)	3,760
Impairment charge	5,422	6,554	17	6,627

Further reductions in the impairment charge

The Group saw a reduction in the impairment charge in the first half of 2011. The impairment charge of £5,422 million was 17 per cent lower than the £6,554 million charge in the first half of 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.

Impaired loans increased by 1 per cent compared to December 2010 to £65.5 billion, representing 10.6 per cent of closing advances, driven by an increase in impaired loans in International, partially offset by decreases in Retail and Wholesale. The Group's coverage ratio reduced by 0.7 per cent to 45.2 per cent.

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. Credit performance remained strong with fewer assets entering arrears compared to the second half of 2010, in both the secured and unsecured portfolios. As a percentage of average advances, the impairment charge decreased to 0.65 per cent, from 0.76 per cent in the second half of 2010.

As expected, the secured impairment charge increased, reflecting less favourable house price forecasts. The proportion of the mortgage portfolio with an indexed loan-to-value of greater than 100 per cent decreased to 12.2 per cent. The value of the portfolio with an indexed loan-to-value greater than 100 per cent and more than three months in arrears decreased slightly by £0.1 billion and is now £3.1 billion, but still represents 0.9 per cent of the

portfolio. The number of mortgage customers new to arrears decreased in the last six months.

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

Impairment provisions held against secured lending in Retail reflect management's view of appropriate allowance for incurred losses, including appropriate impairment provisions for customers who are experiencing financial difficulty, either on a forbearance arrangement or who are able to maintain their repayments while interest rates are low.

The unsecured impairment charge decreased by 32 per cent, reflecting improved quality of new business and effective portfolio management. Unsecured impaired loans decreased by £0.3 billion to £2.7 billion as a result of tightening credit policy across the credit lifecycle, including stronger controls on customer affordability. Impairment provisions as a percentage of impaired loans decreased to 48.5 per cent from 50.6 per cent, as a consequence of fewer assets entering collections, coupled with the continuing write-down of charged-off assets to their net realisable values.

The Wholesale impairment charge reduced materially from £2,801 million in the first half of 2010 to £1,557 million in the first half of 2011. The impairment charge as a percentage of average loans and advances to customers improved significantly to 2.02 per cent in the first half of 2011 compared to 3.11 per cent in the first half of 2010.

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.

In Commercial, the impairment charge decreased by £30 million, or 16 per cent, due to an improvement in the overall credit quality of the portfolio, and the stabilisation of the economy, which led to an overall reduction in the level of defaults.

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 we have allowed for further falls in commercial real estate prices, which resulted in the impairment charge being approximately £500 million above our expectations at the beginning of the year, as well as weakness in our Australasian portfolio.

In Ireland in the first half of this year, a further 11 per cent of the £27.6 billion loans became impaired, resulting in 64.1 per cent of the Irish portfolio now being impaired. Provisions as a percentage of impaired Irish loans were 55.8 per cent at the end of June 2011 (31 December 2010: 53.7 per cent). 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 Group also took a charge of £70 million in the first half of this year as a result of losses arising from the earthquake in New Zealand.

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

Core and non-core impairment performance

	Half-year to 30 June 2011	Half-year to 30 June 2010	Change since 30 June 2010	Half-year to 31 Dec 2010

	£m	£m	%	£m
Core	1,636	1,653	1	1,959
Non-core	3,786	4,901	23	4,668
Total impairment	5,422	6,554	17	6,627

The core impairment charge decreased, principally reflecting a reduction in the Retail impairment charge driven by the unsecured portfolio, partly offset by an increase in Wholesale, primarily due to two significant loans being impaired.

The non-core impairment charge reduced, principally as a result of a material reduction in the Wholesale impairment charge, driven by the same factors as the overall Wholesale impairment charge, partly offset by an increased impairment charge in Wealth and International, principally as a result of our Irish portfolio.

Non-core loans and advances to customers generated 77.2 per cent of the Group's impaired loans reflecting their higher risk profile, with a coverage ratio of 46.7 per cent at 30 June 2011.

Outlook - impairment
We are targeting the reduction of non-core assets and the prudent management of risk to result in an improvement in the Group's asset quality ratio (as a percentage of average gross loans and advances to customers) to 50 to 60 basis points by the end of 2014, with the core business expected to be at the bottom end of this range.

Overall, and based on our current economic assumptions for the UK and Ireland, including unemployment and property valuations, we continue to expect further reductions in impairment losses in 2011, compared to 2010, and beyond.

In Retail, given our expectations for the UK economy, including a 2 per cent reduction in house prices in 2011, we continue to expect that there will be a modest reduction in the overall impairment charge for the full year. The rate of improvement is, however, expected to be significantly slower than in 2010, with the improving performance of the unsecured book more than offsetting additional secured charges.

In Wholesale, depending upon UK economic conditions, we continue to expect a modest reduction for the full year compared to 2010 as a whole. We expect the UK environment to remain subdued in the second half of the year, which could affect trading sectors such as retail and leisure businesses. It may also adversely impact our corporate real estate property lending portfolio which is vulnerable to tenant defaults, although against our base case economic assumptions, we continue to expect a reduction in impairment charges in our corporate real estate and real estate related portfolios in 2011 as a whole. We remain vigilant in monitoring changes in economic conditions and to individual lending positions.

In Commercial, the impairment charge is trending better than 2011 expectations. However, given the subdued UK economic environment, the impairment outlook for the second half of 2011 is cautious, and we therefore expect the impairment charge for the full year 2011 to be broadly similar to that in the full year 2010.

We expect to see a reduction in the Wealth and International impairment charge in 2011, although we anticipate that conditions will remain difficult, and we will continue to monitor international markets closely.

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

Capital resources

	As at	As at

	30 June 2011	31 Dec 2010
Risk-weighted assets	£383.3bn	£406.4bn
Core tier 1 capital ratio	10.1%	10.2%
Tier 1 capital ratio	11.6%	11.6%
Total capital ratio	15.0%	15.2%

Stable capital ratios

Our core tier 1 capital ratio was 10.1 per cent at the end of June (31 December 2010: 10.2 per cent), reflecting the effect of the statutory loss, broadly offset by a reduction in risk-weighted assets of £23.1 billion. The total capital ratio reduced to 15.0 per cent, also reflecting the increase in the excess of expected losses over impairment losses, reflecting the gradual reduction of legacy lending that is subject to very high provision levels and replacement with new lending.

Risk-weighted assets reduced 6 per cent to £383.3 billion in the first half, driven by the run-down of our non-core asset portfolio within the Wholesale division. We do not expect further risk-weighted asset reductions in the second half of the year, given that the effect of the implementation of the new Capital Requirements Directive (CRD) 2 and 3 rule changes are expected to offset the effect of further risk-weighted asset reductions.

Outlook - effects of Basel 3 and capital resources outlook

The Basel Committee on Banking Supervision has substantially refined the details of the so called Basel 3 reforms for an enhanced global capital accord. These include increased minimum levels of capital, increased quality standards for capital, increased risk-weighting of assets, and the introduction of a minimum leverage ratio, as well as the timing and transitional arrangements for implementation. The final details are still to be clarified, particularly as the reforms are implemented within the European and UK regulations, which may include a countercyclical buffer, requiring higher levels of capital to be held at certain points of the economic cycle, and higher capital requirements for systemically important financial institutions.

We are targeting a core tier 1 capital ratio prudently in excess of 10 per cent in 2013 when the transition period to Basel 3 commences. We expect the implementation of CRD 2 and 3 changes noted above and the remaining measures together to have a negative effect of approximately 0.8 per cent on our core tier 1 capital ratio by the end of 2013.

The phasing in of new core tier 1 deductions over five years, which commences in January 2014, is expected to further affect our core tier 1 capital ratio in relation to our insurance operations, excess expected loss, and any residual deferred tax assets relating to trading losses that may still be on the Group's balance sheet at that time.

In July 2011, we have completed further capital restructurings which will contribute to reducing the total core tier 1 deduction under Basel 3 relating to our insurance operations by just over £2 billion. This significant mitigation is equivalent to approximately 50 basis points of core tier 1 capital ratio under full Basel 3 and will reduce the transitional rules impact from insurance to approximately 20 basis points per annum. The transitional adjustment in respect of excess expected loss is likely to have a similar annual effect to the insurance impact.

Non-core asset disposals, and the EU mandated retail business disposal (which is required to complete by the end of November 2013), are expected to reduce risk-weighted assets, and therefore benefit our capital ratios, over this period.

Outlook - return on equity outlook

We expect that the disciplined and high-return investments in our business will contribute to us delivering a sustainable statutory return on equity of between 12.5 and 14.5 per cent by 2014, despite ongoing poor returns from non-core assets, and still with positive earnings momentum into 2015. We expect that these returns will be in excess of our cost of equity.

Balance sheet

	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn
Funded assets1	612.0	655.0
Non-core assets2	162.4	193.7
Non-core risk-weighted assets	128.7	143.9

1 Further analysis is set out on page 95.
2 Further analysis is set out on page 3.

Further progress on balance sheet reduction plans

Total Group funded assets decreased to £612 billion from £655 billion at 31 December 2010, substantially driven by reductions in non-core portfolios across the four banking divisions, continued customer deleveraging and de-risking and subdued demand in lending markets. We are pleased with the progress made on our balance sheet reduction plans in the period, given challenging market conditions in the first half of 2011. In the first half of 2011, we achieved a substantial reduction in the non-core portfolio of £31 billion, resulting in the portfolio at 30 June 2011 amounting to £162 billion.

Outlook - balance sheet

On 30 June 2011, we updated our guidance on our strategy to reduce the non-core portfolio. We set a new target to reduce the balance to be equal to, or less than, £90 billion by the end of 2014, from £194 billion at the end of 2010. We expect the remaining non-core portfolio to account for less than or equal to £65 billion of risk-weighted assets by the end of 2014. We are also targeting non-core run-off and disposals to be net capital generative over the period 2012 to 2014.

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

Liquidity and funding

	As at 30 June 2011	As at 31 Dec 2010
Customer deposits1	£394.9bn	£382.5bn
Wholesale funding	£295.6bn	£298.0bn
Loan to deposit ratio2	144%	154%
Core business loan to deposit ratio2	114%	120%
Government and central bank facilities	£37.1bn	£96.6bn
Proportion of wholesale funding with maturity of greater than one year	49%	50%

1 Excluding repos of £5.0 billion (31 December 2010: £11.1 billion).
2 Excluding repos and reverse repos.

Further strengthening of our liquidity and funding position
The Group made excellent progress against its funding objectives in the first half of 2011 and further enhanced its liquidity position which is supported by a robust and stable customer deposit base. Customer deposits excluding repos increased by 3 per cent, reflecting good growth in relationship deposits in Retail and in Wealth and International.

By the end of the first half of 2011, our loan to deposit ratio, excluding repos and reverse repos, had improved to 144 per cent. Strong term issuance in the first half of 2011 also allowed the Group to maintain its maturity profile of wholesale funding with 49 per cent of wholesale funding having a maturity date greater than one year at 30 June 2011.

We made excellent progress in the first half of 2011 on our term funding issuance plans, achieving £18 billion of publicly placed term issuance in the period. In addition, the Group issued a further £7 billion of term funding during the period via a series of privately placed funding transactions. As a result, the Group is in a position to be more selective as to which products and markets it will participate in during the second half of 2011.

The Group also made excellent progress on reducing its liquidity support from governmental and central bank sources, achieving a reduction of £59.5 billion in the first half of this year leaving £37.1 billion outstanding at the end of June. This liquidity support has various maturity dates, the last of which is in October 2012, and current plans assume that the remaining facilities will be repaid in line with contractual maturity dates.

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

Outlook - liquidity and funding
We will continue to strengthen the Group's balance sheet, liquidity and funding position, through the combination of growth in customer deposits, further wholesale term issuance and reductions in assets from non-core asset reduction plans over the next three years.

As stated above we have made excellent progress in wholesale funding against our previous guidance of public issuance of £20 billion to £25 billion this year. We expect to issue new funding of between £5 billion and £10 billion over the second half of this year across all public and private issuance programmes.

Our annual wholesale term issuance requirement has now fallen, and we expect a public term issuance requirement of £15 billion to £20 billion per annum as part of a total private and public programme of approximately £25 billion per annum in the future.

With a reduction in our overall wholesale funding requirement and in our non-core assets, and further growth in our relationship customer deposits, we are targeting an improvement in our Group loan to deposit ratio from 144 per cent currently to 130 per cent or below by the end of 2014 and our core business loan to deposit ratio to be 120 per cent or below by the same time.

The European Commission published its latest proposals on CRD 4 during July. The Group has constructed its funding plan to ensure compliance with the Liquidity Leverage Ratio (LCR) before the effective date of 2015. However, we note that the measure is subject to analysis of any unintended consequences with possible changes to the calculation before the implementation date. We will continue to develop models to calculate LCR as changes are introduced.

The funding plan also delivers compliance with Net Stable Funding Ratio based on the current definition. As set out in the CRD 4 document, we note that the Commission will use the longer Basel observation period (to 2018) to

prepare a legislative proposal.

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

Reconciliation of combined businesses results to statutory results

	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	(177)	(199)	505
Amortisation of purchased intangibles	(289)	(323)	(306)
Customer goodwill payments provision	-	-	(500)
Pension curtailment gain (loss)	-	1,019	(109)
Payment protection insurance provision	(3,200)	-	-
EU mandated retail business disposal costs	(47)	-	-
Loss on disposal of businesses	-	-	(365)
(Loss) profit before tax - statutory	(3,251)	1,296	(1,015)
Taxation	973	(630)	91
(Loss) profit for the period	(2,278)	666	(924)
(Loss) earnings per share	(3.4)p	0.9p	(1.3)p

Integration costs

Integration costs of £642 million were incurred in the first half of 2011. The integration costs relate to severance, IT and business costs of implementation.

Volatility arising in insurance businesses

A large proportion of the funds held by the Group's insurance businesses are invested in assets which are expected to be held on a long-term basis and which are inherently subject to short-term investment market fluctuations. Whilst it is expected that these investments will provide enhanced returns over the longer term, the short-term effect of investment market volatility can be significant. The negative insurance and policyholder interests volatility of £177 million in the first half of 2011 reflects less optimistic economic forecasts and lower cash returns compared to long-term expectations.

Taxation

The tax credit for the half-year to 30 June 2011 was £973 million. This reflects a higher effective tax rate than the UK statutory rate primarily due to the recognition of tax losses previously unrecognised and policyholder tax, net of the effect on deferred tax of the further reduction in the UK corporation tax rate from 28 per cent to 26 per cent with effect from 1 April 2011.

Acquisition related balance sheet adjustments

Profit before tax includes the unwind of £1,668 million of acquisition related fair value adjustments. This is ahead of our previous expectations due to the accelerated release of amounts held against the Group's securities portfolios following disposals during the first half of the year. In the second half of 2011, we expect a further benefit of some £1 billion. Thereafter, over the medium term, declining benefits are expected to accrue.

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

EU mandated retail business disposal (Project Verde)
The Verde business comprises a network of 632 branches, and the TSB and Intelligent Finance brands, and serves approximately 5.5 million customers. The table below shows an illustration of the full year effects of the Verde disposal on the Lloyds Banking Group financials, based on current financial information and the term sheet presented to potential buyers in line with the base EU requirements. However, it is expected that the final profile at the time of expected legal completion in 2013 will be different.

Income statement	
Income	c£1.2 billion
Expenses	c£0.5 billion
Impairment charge	c£0.2 billion
Profit before tax	c£0.5 billion

Balance sheet	
Risk-weighted assets	c£16 billion
Assets	c£64 billion
Liabilities	c£32 billion

The implementation costs of the disposal will vary depending on the nature of the buyer, but could be up to £1 billion. These costs will be excluded from our combined businesses results.

Summary
In the first half of 2011, the Group delivered a combined businesses performance in line with our expectations and the guidance given in our Strategic Review announcement on 30 June 2011 remains unchanged.

We are well positioned to realise over time the full potential of our organisation, brands and capabilities, and to achieve strong, stable and sustainable returns for shareholders.

Tim Tookey
Group Finance Director

COMBINED BUSINESSES SEGMENTAL ANALYSIS

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 unwind[1]	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 margin[2]	2.26%	1.64%	4.35%	1.47%			2.07%
Cost:income ratio[3]	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 excl reverse repos	357.8	130.1	28.7	51.1		0.4	568.1
Customer deposits excl repos	242.3	81.0	32.7	38.9			394.9
Total customer balances	600.1	211.1	61.4	90.0		0.4	963.0
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 83.
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.

COMBINED BUSINESSES SEGMENTAL ANALYSIS (continued)

	Retail	Wholesale	Commercial	Wealth and Int'l	Insurance	Group Operations	Group

						and Central items	
Half-year to 30 June 2010	£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%