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-________

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Nos. 333-167844; 333-167844-01) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.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 £m	Wholesale £m	Commercial £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £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	Half-year to 30 June 2010	Change since 30 June 2010	Half-year to 31 Dec 2010
	£m	£m	%	£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%		