Lloyds Banking Group plc
Form 6-K
August 18, 2010

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

August 18, 2010

Lloyds Banking Group plc

25 Gresham Street
London EC2V 7HN
United Kingdom
011-44-207-626-1500

(Address and telephone number 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 if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):___

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-________

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File No. 333-167844) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.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 June 30, 2010 and is being incorporated by reference into the Registration Statements with File Nos. 333-167844.

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 2010.

Statutory basis
Statutory results are set out on pages 74 to 108. 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 2010 interim results with 2009 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 following adjustments have been made:
  – the results for the half-year ended 30 June 2009 assume HBOS had been owned throughout the full period;
  – the gain on acquisition of HBOS (in the half-year ended 30 June 2009) and amortisation of purchased intangible assets have 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 underlying business performance the following items, not related to acquisition accounting, have also been excluded:
  – integration costs;
  – insurance and policyholder interests volatility;
  – the Government Asset Protection Scheme (GAPS) fee paid in December 2009;
  – goodwill impairment; and
  – the curtailment gain in respect of the Group's defined benefit pension schemes.

Unless otherwise stated income statement commentaries throughout this document compare the half-year ended 30 June 2010 to the half-year ended 30 June 2009, and the balance sheet analysis compares the Group balance sheet as at 30 June 2010 to the Group balance sheet as at 31 December 2009.

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's 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; market related trends and developments; changing demographic 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 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Statutory (IFRS)				
Total income, net of insurance claims	12,591	9,798	29	13,480
Total operating expenses	(5,811)	(6,464)	10	(9,520)
Trading surplus	6,780	3,334	103	3,960
Impairment	(5,423)	(8,053)	33	(8,620)
Gain on acquisition	–	11,173		–
Profit (loss) before tax	1,296	5,950	(78)	(4,908)
Profit (loss) attributable to equity shareholders	596	7,095		(4,268)
Earnings per share	0.9p	22.0p		(9.9)p
Combined businesses basis (note 1, page 38)				
Total income, net of insurance claims	12,481	11,939	5	12,025
Banking net interest margin	2.08%	1.72%		1.83%
Operating expenses	(5,435)	(5,718)	5	(5,891)
Cost:income ratio	43.5%	47.9%		49.0%
Trading surplus	6,896	6,221	11	6,134
Impairment	(6,554)	(13,399)	51	(10,589)
Profit (loss) before tax	1,603	(3,957)		(2,343)

Capital and balance sheet	As at 30 June 2010	As at 31 Dec 2009
Statutory (IFRS)		
Loans and advances to customers	£612.1bn	£627.0bn
Customer deposits	£420.4bn	£406.7bn
Net assets per ordinary share	68.6p	67.8p
Core tier 1 capital ratio	9.0%	8.1%
Tier 1 capital ratio	10.3%	9.6%
Total capital ratio	13.4%	12.4%
Leverage ratio	18 times	18 times

LLOYDS BANKING GROUP PLC

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

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Retail	2,495	360	1,022
Wholesale	742	(3,208)	(1,495)
Wealth and International	(1,609)	(342)	(2,014)
Insurance	469	397	578
Group Operations and Central items:			
Group Operations	(56)	(55)	(94)
Central items	(438)	(1,109)	(340)
	(494)	(1,164)	(434)
Profit (loss) before tax	1,603	(3,957)	(2,343)

The basis of preparation of the Group’s segmental results is set out in note 1 on page 38.

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 performance and allocate resources; this reporting is on a combined businesses basis, which the GEC feel best represents the underlying performance of the Group. These combined businesses segmental results for 2010 and 2009 are therefore presented in compliance with IFRS 8 Operating Segments. However,the aggregated 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 39.

Statutory profit before tax in the first half of 2010 was 1,296 million, compared to 5,950 million in the first half of 2009 which benefited from the impact of an 11,173 million credit from the gain arising on the HBOS acquisition (negative goodwill). Profit attributable to equity shareholders was 596 million and earnings per share totaled 0.9 pence. 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 presentation’). 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 39. 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 and includes certain items, also indicated in the tables in note 1 on page 39, not reflected in the Group’s statutory consolidated IFRS results.

LLOYDS BANKING GROUP PLC

COMBINED BUSINESSES CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Net interest income	6,911	6,442	6,284
Other income	5,831	5,791	6,084
Total income	12,742	12,233	12,368
Insurance claims	(261)	(294)	(343)
Total income, net of insurance claims	12,481	11,939	12,025
Costs – Operating expenses	(5,435)	(5,718)	(5,891)
– Impairment of tangible fixed assets	(150)	–	–
	(5,585)	(5,718)	(5,891)
Trading surplus	6,896	6,221	6,134
Impairment	(6,554)	(13,399)	(10,589)
Share of results of joint ventures and associates	(62)	(507)	(260)
Profit (loss) before tax and fair value unwind	280	(7,685)	(4,715)
Fair value unwind	1,323	3,728	2,372
Profit (loss) before tax – combined businesses	1,603	(3,957)	(2,343)

The basis of preparation of the combined businesses income statement is set out on page 38 and is reconciled to the statutory basis on page 39.

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

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Profit (loss) before tax – combined businesses	1,603	(3,957)	(2,343)
Integration costs	(804)	(358)	(738)
Volatility (note 5, page 45)	(199)	(591)	1,069
Government Asset Protection Scheme (GAPS) fee	–	–	(2,500)
Negative goodwill credit	–	11,173	–
Amortisation of purchased intangibles and goodwill impairment	(323)	(604)	(389)
Curtailment gain (note 4, page 88)	1,019	–	–
Pre-acquisition consolidated losses of HBOS plc	–	280	–
Insurance grossing adjustment	–	7	(7)
Profit (loss) before tax – statutory	1,296	5,950	(4,908)

LLOYDS BANKING GROUP PLC

SEGMENTAL ANALYSIS (UNAUDITED)
(COMBINED BUSINESSES)

Half-year to 30 June 2010	Retail £m	Wholesale £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	4,636	2,147	596	(136)	(332)	6,911
Other income	836	2,215	605	1,320	855	5,831
Total income	5,472	4,362	1,201	1,184	523	12,742
Insurance claims	–	–	–	(261)	–	(261)
Total income, net of insurance claims	5,472	4,362	1,201	923	523	12,481
Costs:						
Operating expenses	(2,233)	(1,882)	(744)	(423)	(153)	(5,435)
Impairment of tangible fixed assets	–	(150)	–	–	–	(150)
	(2,233)	(2,032)	(744)	(423)	(153)	(5,585)
Trading surplus	3,239	2,330	457	500	370	6,896
Impairment	(1,335)	(2,991)	(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	(721)	(1,773)	490	372	280
Fair value unwind(1)	583	1,463	164	(21)	(866)	1,323
Profit (loss) before tax	2,495	742	(1,609)	469	(494)	1,603
Banking net interest margin(2)	2.44 %	1.85 %	1.65 %			2.08 %
Cost:income ratio(3)	40.8 %	43.1 %	61.9 %	45.8 %		43.5 %
Impairment as a % of average advances (annualised)(4)	0.72 %	2.85 %	6.56 %			2.01 %
Key balance sheet and other items						
As at 30 June 2010	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers(5)	368.0	186.0	57.6		0.5	612.1
Customer deposits(5)	230.7	159.2	30.3		0.2	420.4
Risk-weighted assets	106.8	280.7	59.3	1.7	14.7	463.2

(1)

The net credit in the first half of 2010 of £1,323 million is mainly attributable to a reduction in the impairment charge of £1,131 million and an increase in other income of £413 million, as losses reflected in the acquisition balance sheet valuations of the lending and securities portfolios have been incurred, together with other hedging adjustments. This has been partly offset by a charge to net interest income of £183 million. The impact of the fair value unwind on net interest income is lower than previous periods because the liability management exercises undertaken by the Group have had the effect of crystallising a proportion of the gains reflected in the opening balance sheet valuation of HBOS's own debt; there has also been a benefit from revised expectations of future impairment losses likely to emerge from certain retail lending portfolios.

(2) The calculation basis for banking net interest margins is set out in note 2 on page 41.

(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.

(5) Statutory basis.

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SEGMENTAL ANALYSIS (UNAUDITED) (continued)

Half-year to 30 June 2009	Retail £m	Wholesale £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	3,735	2,495	597	(158)	(227)	6,442
Other income	894	2,154	554	1,479	710	5,791
Total income	4,629	4,649	1,151	1,321	483	12,233
Insurance claims	–	–	–	(294)	–	(294)
Total income, net of insurance claims	4,629	4,649	1,151	1,027	483	11,939
Operating expenses	(2,356)	(1,951)	(769)	(496)	(146)	(5,718)
Trading surplus	2,273	2,698	382	531	337	6,221
Impairment	(2,192)	(9,738)	(1,469)	–	–	(13,399)
Share of results of joint ventures and associates	(8)	(485)	(11)	(8)	5	(507)
Profit (loss) before tax and fair value unwind	73	(7,525)	(1,098)	523	342	(7,685)
Fair value unwind	287	4,317	756	(126)	(1,506)	3,728
Profit (loss) before tax	360	(3,208)	(342)	397	(1,164)	(3,957)
Banking net interest margin	1.86%	1.52%	1.82%			1.72%
Cost:income ratio	50.9%	42.0%	66.8%	48.3%		47.9%
Impairment as a % of average advances (annualised)	1.15%	6.87%	4.55%			3.47%
Key balance sheet and other items						
As at 30 June 2009	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	376.7	216.4	58.6		0.9	652.6
Customer deposits	218.5	180.9	29.7		–	429.1
Risk-weighted assets	131.3	287.9	57.9	1.4	4.0	482.5

LLOYDS BANKING GROUP PLC

SEGMENTAL ANALYSIS (UNAUDITED) (continued)

Half-year to 31 December 2009	Retail £m	Wholesale £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	4,235	2,215	620	(129)	(657)	6,284
Other income	910	2,045	574	1,465	1,090	6,084
Total income	5,145	4,260	1,194	1,336	433	12,368
Insurance claims	–	–	–	(343)	–	(343)
Total income, net of insurance claims	5,145	4,260	1,194	993	433	12,025
Operating expenses	(2,210)	(2,155)	(775)	(478)	(273)	(5,891)
Trading surplus	2,935	2,105	419	515	160	6,134
Impairment	(2,035)	(5,945)	(2,609)	–	–	(10,589)
Share of results of joint ventures and associates	2	(235)	(10)	(14)	(3)	(260)
Profit (loss) before tax and fair value unwind	902	(4,075)	(2,200)	501	157	(4,715)
Fair value unwind	120	2,580	186	77	(591)	2,372
Profit (loss) before tax	1,022	(1,495)	(2,014)	578	(434)	(2,343)
Banking net interest margin	2.08%	1.52%	1.61%			1.83%
Cost:income ratio	43.0%	50.6%	64.9%	48.1%		49.0%
Impairment as a % of average advances (annualised)	1.07%	4.92%	7.40%			3.02%

Key balance sheet and other items						
As at 31 December 2009	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	371.1	191.8	63.5		0.6	627.0
Customer deposits	224.1	153.4	29.0		0.2	406.7
Risk-weighted assets	128.6	286.0	63.2	1.1	14.4	493.3

LLOYDS BANKING GROUP PLC

GROUP PERFORMANCE (UNAUDITED)
(COMBINED BUSINESSES)

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	6,911	6,442	8	6,284
Other income	5,831	5,791	1	6,084
Total income	12,742	12,233	4	12,368
Insurance claims	(261)	(294)	11	(343)
Total income, net of insurance claims	12,481	11,939	5	12,025
Costs:				
Operating expenses	(5,435)	(5,718)	5	(5,891)
Impairment of tangible fixed assets	(150)	–		–
Total operating expenses	(5,585)	(5,718)	2	(5,891)
Trading surplus	6,896	6,221	11	6,134
Impairment	(6,554)	(13,399)	51	(10,589)
Share of results of joint ventures and associates	(62)	(507)		(260)
Profit (loss) before tax and fair value unwind	280	(7,685)		(4,715)
Fair value unwind	1,323	3,728		2,372
Profit (loss) before tax	1,603	(3,957)		(2,343)

The basis of preparation of the combined businesses income statement is set out on page 38 and is reconciled to the statutory basis on page 39.

Profit before tax for the half-year to 30 June 2010 was £1,603 million compared to a loss for the half-year to 30 June 2009 of £3,957 million.

Profit before tax and fair value unwind was £280 million for the half-year to 30 June 2010 compared to a loss of £7,685 million for the half-year to 30 June 2009.

Total income, net of insurance claims, was 5 per cent higher at £12,481 million which included a gain of £423 million as a result of the Group's liability management exercises (note 3, page 87) (first half of 2009: £745 million). Excluding the impact of liability management transactions income was 8 per cent higher.

The growth in total income, net of insurance claims, arose primarily in Retail, which recorded a 24 per cent increase in net interest income as a result of continued migration of mortgage business onto standard variable rate products and higher new business margins as assets are priced to more appropriately reflect risk, particularly in the mortgage portfolio. Whilst lending markets have remained generally subdued throughout the industry, the Group has maintained a 23 per cent share of gross mortgage lending. Unsecured lending balances were lower, principally reflecting lower customer demand. During the first half of 2010, we have continued to build our current account and savings customer franchises in what remains a competitive market for customer deposits.

In Wholesale, total income decreased by 6 per cent driven by a decrease in net interest income reflecting lower interest-earning asset balances, following the disposal of debt securities and available-for-sale assets, and reduced interest earnings in Treasury and Trading.

In Wealth and International, total income increased by 4 per cent reflecting the positive impact in the Wealth businesses of higher global stock markets and, in International, favourable foreign exchange movements. This was partly offset by lower net interest margins which reflected the impact of higher impaired loan balances and lower deposit margins. There was also a small benefit from the gains on completion of the sales of Employee Equity Solutions and Bank of Scotland Portfolio Management Service.

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GROUP PERFORMANCE (UNAUDITED) (continued)

New business sales in our life, pensions and investments businesses decreased by 14 per cent, largely reflecting the withdrawal of certain HBOS legacy products with lower returns, partially offset by higher sales of Open Ended Investment Companies (OEICs) and higher margin protection products. However, as a result of the continuing repositioning of the product set, integration activities, and higher returns from retirement income products in the first half of 2010, UK new business profit increased by £53 million to £132 million.

Within Central items total income increased by £48 million to £544 million. This reflects a £192 million increase in the fair value of the embedded derivatives within the Group's Enhanced Capital Notes and a £185 million increase in the fair value of other derivatives which cannot be mitigated through hedge accounting, partially offset by a decrease of £322 million in gains on liability management transactions.

Group net interest income increased by £469 million, or 7 per cent, to £6,911 million. The net interest margin from our banking businesses was 36 basis points higher at 2.08 per cent, as higher asset pricing and compression of the spread between base rate and LIBOR more than offset the impact of lower deposit margins, due to the continued low base rate and ongoing competition for customer balances.

Other income, net of insurance claims, increased by £73 million, or 1 per cent, to £5,570 million, largely reflecting higher income from Wholesale, driven by gains on asset sales and recoveries in the values of private equity portfolios, and a favourable movement in mark-to-market values on derivatives that cannot be mitigated through hedge accounting (within Central items) partially offset by lower gains on liability management transactions and by lower income in Retail driven by lower gross lending volumes and overdraft fee income. The Insurance results include a charge to income of £70 million due to the decision to withdraw from writing new payment protection insurance business.

During the first half of 2010, operating expenses decreased by 5 per cent to £5,435 million, as integration related savings were captured, together with lower levels of operating lease depreciation. After investment, ongoing business-as-usual expenses were held within inflationary levels. The Group's cost:income ratio also saw further improvement to 43.5 per cent (45.1 per cent excluding gains from liability management transactions).

Impairment losses of £6,554 million in the first half of 2010 are 51 per cent lower than the £13,399 million charge in the first half of 2009 and 38 per cent lower than the £10,589 million charge in the second half of 2009. Although the reductions are largely driven by Wholesale, all divisions (and, importantly, within the Wealth and International division, our Irish business) are showing improving trends in 2010.

In Retail, impairment losses decreased by £857 million, or 39 per cent, to £1,335 million, particularly reflecting stabilising house prices and the benefit of continued low interest rates. Impairment losses as a percentage of average loans and advances to customers improved to 0.72 per cent in the first half of 2010 compared to 1.15 per cent in the first half of 2009. Secured impairment losses reduced to £53 million while unsecured impairment losses reduced to £1,282 million. As house prices have recovered the proportion of the mortgage portfolio with an indexed loan-to-value of greater than 100 per cent has decreased and now accounts for 9.5 per cent (31 December 2009: 13.0 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 has fallen nearly £1.5 billion and is now £2.5 billion, representing 0.7 per cent of the portfolio, down from 1.1 per cent in the first half of 2009. The number of mortgage customers new to arrears has also stabilised in the last twelve months, and is below the peak experienced in the second half of 2008.

LLOYDS BANKING GROUP PLC

GROUP PERFORMANCE (UNAUDITED) (continued)

The Wholesale charge for impairment losses decreased to £2,991 million in the first half of 2010 from £9,738 million in the first half of 2009. Impairment losses as a percentage of average loans and advances to customers improved to 2.85 per cent in 2010 compared to 6.87 per cent in the first half of 2009. The decrease in the half-year to 30 June 2010 generally reflects actions taken in 2009, the stabilising economic environment and continuing low interest rates.

In Wealth and International, impairment charges totalled £2,228 million, up 52 per cent on the first half of last year but down 15 per cent on the £2,609 million charge in the second half of last year. The level of losses continues to be dominated by the economic environment in Ireland.

At 30 June 2010, the Group's capital ratios had increased with a total capital ratio of 13.4 per cent, a tier 1 ratio of 10.3 per cent and a core tier 1 ratio of 9.0 per cent.

LLOYDS BANKING GROUP PLC

DIVISIONAL PERFORMANCE (UNAUDITED)

RETAIL

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	4,636	3,735	24	4,235
Other income	836	894	(6)	910
Total income	5,472	4,629	18	5,145
Operating expenses	(2,233)	(2,356)	5	(2,210)
Trading surplus	3,239	2,273	42	2,935
Impairment	(1,335)	(2,192)	39	(2,035)
Share of results of joint ventures and associates	8	(8)		2
Profit before tax and fair value unwind	1,912	73		902
Fair value unwind	583	287		120
Profit before tax	2,495	360		1,022
Banking net interest margin	2.44%	1.86%		2.08%
Cost:income ratio	40.8%	50.9%		43.0%
Impairment as a % of average advances (annualised)	0.72%	1.15%		1.07%

	As at 30 June 2010 £bn	As at 30 June 2009 £bn	Change since 31 Dec 2009 %	As at 31 Dec 2009 £bn
Loans and advances to customers	368.0	376.7	(1)	371.1
Customer deposits				
Savings	191.9	182.1	3	185.6
Current accounts	38.8	36.4	1	38.5
	230.7	218.5	3	224.1
Risk-weighted assets	106.8	131.3	(17)	128.6

LLOYDS BANKING GROUP PLC

RETAIL (continued)

Key highlights

- Profit before tax increased to £2,495 million compared to £360 million in the first half of 2009. The increase of £2,135 million includes an increase of £296 million in respect of fair value unwind.

- Profit before tax and fair value unwind increased to £1,912 million, an increase of £1,839 million compared to the first half of 2009, driven by income growth of 18 per cent, cost control, with costs down 5 per cent, and an impairment charge of £1,335 million compared to £2,192 million in the first half of 2009.

- Total income increased by 18 per cent, driven by higher net interest income largely as a result of the continuing re-pricing of risk and a decrease in the LIBOR spread to UK base rate, partially offset by a reduction in other income driven by lower lending volumes and changes to product design.

- Operating expenses decreased by 5 per cent, which combined with the division's income growth led to a reduction in the cost:income ratio to 40.8 per cent. Operating expenses benefited from ongoing cost control and cost synergies.

- Impairment losses reduced to £1,335 million, down 39 per cent, supported by the Group's risk management processes; a stabilising economy and house prices; and low interest rates. The improvement in credit performance was quicker than expected at the year end.

- Loans and advances to customers decreased by £3.1 billion, or 1 per cent, from 31 December 2009 as customers continued to reduce their personal indebtedness. In particular customers continued to pay down unsecured debts. During the first half of 2010 gross new mortgage lending was £14.9 billion as Retail continued to seek to support the housing market and first time buyers.

- Customer deposit balances increased by £6.6 billion, or 3 per cent, from 31 December 2009. This growth was predominantly from instant access and tax free ISA accounts rather than more expensive term deposits.

LLOYDS BANKING GROUP PLC

RETAIL (continued)

Financial performance

Profit before tax increased to £2,495 million compared to £360 million in the first half of 2009. The increase of £2,135 million includes an increase of £296 million in respect of fair value unwind.

Profit before tax and fair value unwind in the first half of 2010 was £1,912 million, compared to £73 million in the first half of 2009 and £902 million in the second half of 2009. This increase in profits was driven by income growth, lower costs and a reduction in impairment losses in the context of a stabilising economy.

Total income increased by £843 million, or 18 per cent, to £5,472 million. This was driven by an increase in net interest income of £901 million, partially offset by a reduction in other income of £58 million.

Net interest income increased by 24 per cent, with net interest margins increasing to 2.44 per cent, from 1.86 per cent in the first half of 2009, reflecting the continued re-pricing of risk and a decrease in the LIBOR spread to Base Rate. Low interest rates also meant that more mortgage customers moved onto, and are staying on, standard variable rates. Retail has also reduced the proportion of more expensive term deposits, while maintaining deposit growth.

Other income fell as a result of lower gross lending volumes and associated fee-based income, as well as lower overdraft fee income following the redesign of the overdraft product.

Total income is analysed as follows:

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Mortgages and Savings	2,294	1,679	37	1,988
Consumer Banking	3,178	2,950	8	3,157
Total income	5,472	4,629	18	5,145

During the first half of 2010 total income from Mortgages and Savings increased by 37 per cent. The majority of the increase came from higher net interest margins, reflecting lower LIBOR spreads to Base Rate and mortgage risk re-pricing. This recovery in mortgage net interest margin was partially offset by savings margins which were negatively impacted by low base rates.

Consumer Banking income increased by 8 per cent as the impact of risk re-pricing was partly offset by lower customer lending balances and fees. Total income was constrained as unsecured lending balances decreased by 6 per cent from December 2009 and by 11 per cent from June 2009 as customers paid down their unsecured debts.

Operating expenses decreased by 5 per cent, reflecting ongoing cost control and synergies from integration (note 3, page 43). The cost:income ratio improved to 40.8 per cent compared to 50.9 per cent in the first half of 2009.

LLOYDS BANKING GROUP PLC

RETAIL (continued)

Impairment losses on loans and advances decreased by £857 million, or 39 per cent, to £1,335 million reflecting the stabilising economy, flat house prices, low interest rates and prudent lending criteria. As an annualised percentage of average advances, impairment losses decreased to 0.72 per cent, compared with 1.15 per cent in the first half of 2009 (and 1.07 per cent in the second half of 2009). Secured impairment losses reduced to £53 million while unsecured impairment losses reduced to £1,282 million. Credit performance improved more quickly than was expected at year end. Based on the Group's current assessment of expected economic conditions, further improvements in impairment losses in the second half of 2010 and during 2011 are expected, but at a slower rate.

Balance sheet

Total loans and advances to customers decreased by £3.1 billion, or 1 per cent, to £368.0 billion, compared to 31 December 2009, as a result of lower customer demand for credit and as customers continue to reduce their personal indebtedness. The reduction in lending to customers was driven by repayment of unsecured debt where balances reduced by 6 per cent. Secured balances were broadly unchanged.

The UK mortgage market for both house purchase and re-mortgaging has been stable in the first half of 2010, with gross market lending of £63.6 billion compared to £65.1 billion in the first half of 2009 (and £78.5 billion in the second half of 2009). Retail's gross new mortgage lending was £14.9 billion in the first half of 2010. New mortgage lending continued to be focused on supporting the housing market with more than 65 per cent of the lending being for house purchase rather than re-mortgaging.

Risk-weighted assets decreased by £21.8 billion, or 17 per cent, to £106.8 billion compared to 31 December 2009. This reduction was driven by lower lending balances, lower expected downturn loss given default and the lower risk mix of the loan portfolio with reduced exposure to unsecured lending.

Total customer deposits increased by £6.6 billion, or 3 per cent, to £230.7 billion compared to 31 December 2009. The growth was predominantly from instant access and tax free ISA accounts, rather than more expensive term deposits.

LLOYDS BANKING GROUP PLC

WHOLESALE

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	2,147	2,495	(14)	2,215
Other income	2,215	2,154	3	2,045
Total income	4,362	4,649	(6)	4,260
Costs:				
Operating expenses	(1,882)	(1,951)	4	(2,155)
Impairment of tangible fixed assets	(150)	–		–
	(2,032)	(1,951)	(4)	(2,155)
Trading surplus	2,330	2,698	(14)	2,105
Impairment	(2,991)	(9,738)	69	(5,945)
Share of results of joint ventures and associates	(60)	(485)	88	(235)
Loss before tax and fair value unwind	(721)	(7,525)	90	(4,075)
Fair value unwind	1,463	4,317	(66)	2,580
Profit (loss) before tax	742	(3,208)		(1,495)
Corporate Markets	(1,085)	(7,735)		(4,001)
Treasury and Trading	259	460		135
Asset Finance	105	(250)		(209)
Loss before tax and fair value unwind	(721)	(7,525)		(4,075)
Banking net interest margin	1.85%	1.52%		1.52%
Cost:income ratio (excl. impairment of tangible fixed assets)	43.1%	42.0%		50.6%
Impairment as a % of average advances (annualised)	2.85%	6.87%		4.92%

Key balance sheet and other items	As at 30 June 2010 £bn	As at 30 June 2009 £bn	Change since 31 Dec 2009 %	As at 31 Dec 2009 £bn
Loans and receivables:				
Loans and advances to customers	186.0	216.4	(3)	191.8
Loans and advances to banks	13.3	21.6	(30)	18.9
Debt securities	28.1	33.0	(11)	31.7
Available-for-sale financial assets	33.5	40.8	(9)	36.9
	260.9	311.8	(7)	279.3
Customer deposits(1)	159.2	180.9	4	153.4
Risk-weighted assets	280.7	287.9	(2)	286.0

(1)Of which repos represent £45.0 billion (31 December 2009: £35.5 billion, 30 June 2009: £58.9 billion).

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Key highlights

- Profit before tax was £742 million compared to a loss before tax of £3,208 million in the first half of 2009. The improvement of £3,950 million is after taking account of a decrease of £2,854 million in respect of fair value unwind.

- Loss before tax and fair value unwind amounted to £721 million, an improvement of £6,804 million mainly reflecting the decrease in the level of impairment since the half-year to 30 June 2009.

- Total income decreased by 6 per cent to £4,362 million. This decrease was due to a 14 per cent decline in net interest income reflecting lower interest-earning asset balances from the disposal of debt securities and available-for-sale assets, primarily in Corporate Markets, and lower income in Treasury and Trading as markets stabilised. These decreases were partially offset by a 33 basis point increase in the banking net interest margin reflecting increases in both asset and liability margins.

- Other income increased by 3 per cent to £2,215 million, primarily as a result of the recovery in values and realised gains on exits in the private equity portfolios.

- Operating expenses decreased by 4 per cent, reflecting reduced levels of operating lease depreciation and the continuation of the cost savings achieved from the integration programme partially offset by continuing investment in business support and customer facing resource and systems.

- Impairment losses on financial assets amounted to £2,991 million, compared to £9,738 million in the first half of 2009, and £5,945 million in the second half of 2009. Although 69 per cent lower, the level of total impairments continues to be primarily driven from the HBOS heritage real estate and real estate related portfolios. Impairment of tangible fixed assets of £150 million was incurred on assets held on the balance sheet as a result of consolidation of certain entities over which the Group now exercises control. Previously these assets were classified as loans and receivables.

- Share of results of joint ventures and associates amounted to a loss of £60 million, an improvement of £425 million compared to the first half of 2009.

- Loans and receivables and available-for-sale assets decreased by 7 per cent from 31 December 2009 as the Group continued to sell down or reduce holdings in debt securities and available-for-sale positions and as customers in Wholesale's strategic segments deleveraged.

- Customer deposits increased 4 per cent to £159.2 billion compared to 31 December 2009. An increase in customer deposits in Corporate Markets of £4.1 billion and in repo balances of £9.5 billion was partly offset by a decline in price sensitive deposits in Treasury and Trading of £7.8 billion.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Business overview
The Wholesale division serves in excess of a million businesses, ranging from start-ups and small enterprises to global corporations, with a range of propositions fully segmented according to customer need. The division comprises Corporate Markets, Treasury and Trading and Asset Finance.

Since December 2009, there has been a re-organisation of the businesses that make up Corporate Markets. This was designed to accelerate and provide greater focus on the plans of the strategic continuing businesses and further define the ‘manage for value’ strategy.

Corporate Markets now comprises Corporate, Commercial, Wholesale Markets, Wholesale Equity and Corporate Real Estate Business Support Unit. The activities previously performed within the old Corporate Real Estate (CRE) and Specialist Finance business units have been split out among the new business units.

- The activities of CRE have been absorbed within Corporate and Commercial except for those retained within the new Corporate Real Estate Business Support Unit. This was formed to better align the dedicated support required for our real estate customers across the division who have been impacted during the recent challenging financial environment. The unit offers solutions to customers including the provision of finance to maintain cash flow and capital restructuring where appropriate.

- The Specialist Finance Group has been disbanded. The Acquisition Finance unit is managed within Wholesale Markets and the lending business focused on private equity funds is managed within Corporate. The balance of the business, comprising the private equity investments including Lloyds Development Capital, is now managed as a separate business known as Wholesale Equity.

Financial performance
Profit before tax was £742 million compared to a loss before tax of £3,208 million in the first half of 2009. The improvement of £3,950 million is after taking account of a decrease of £2,854 million in respect of fair value unwind.

Loss before tax and fair value unwind improved by £6,804 million to £721 million, driven by a decrease in impairment losses reflecting the stabilising economic climate.

Total income decreased by £287 million, or 6 per cent, to £4,362 million driven by a 14 per cent decrease in net interest income. This decrease in net interest income reflects lower interest-earning asset balances following the disposal of debt securities and available-for-sale assets, primarily in Corporate Markets, and lower income in Treasury and Trading as markets stabilised. Other income increased by £61 million, or 3 per cent, to £2,215 million, primarily due to realised gains on asset sales and increases in the value of the private equity portfolio in Corporate Markets. This was partially offset by lower income in Treasury and Trading where the first half of 2009 benefited from increased demand for risk management products in light of the greater market volatility at that time.

Banking net interest income, which excludes trading activity, increased by £192 million as lending business continues to be re-priced to reflect customer risk profiles and due to moderately higher deposit margins. The impact of re-pricing was only partially offset by a decrease in average interest-earning assets and liabilities balances. As a result, the banking net interest margin increased by 33 basis points to 1.85 per cent in the first half of 2010.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Operating expenses decreased by £69 million, or 4 per cent, to £1,882 million primarily from a further 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 costs in the Business Support Unit and continued investment in customer facing resource and systems.

Impairment losses decreased by £6,747 million to £2,991 million in the first half of 2010. Impairment losses on loans and advances as a percentage of average loans and advances to customers improved to 2.85 per cent in 2010 compared to 6.87 per cent in the first half of 2009. The decrease reflects actions taken in the first half of 2009 on the heritage HBOS portfolio including the identification of large impairments post the HBOS acquisition, the stabilising UK economic environment in 2010 and a number of write backs in the first half of 2010.

Impairment of tangible fixed assets of £150 million relates to assets held on the balance sheet as a result of the consolidation of certain entities over which the Group now exercises control. Previously these assets were classified as loans and receivables.

Based on the Group's current assessment of expected economic conditions, impairment losses in 2010 are expected to be lower than in 2009. However, the volume of underlying impairment losses from traditional trading and manufacturing businesses is expected to continue to increase during 2010 as the full impact of recent economic conditions filters into business insolvencies and asset values which typically lags general economic recovery. While the effects of this are expected to be significantly less than the benefit of lower absolute impairments from the HBOS Corporate Real Estate and HBOS (UK and US) Corporate portfolios, based on the Group's current assessment of expected economic conditions, the second half of 2010 is expected to see a modest reduction in impairment compared to the first half of 2010, with further reductions in 2011.

The share of losses from joint ventures and associates decreased by £425 million, generating a loss of £60 million. This represents a continuation of lower write-offs seen in the second half of 2009 as operating performance in investee companies improved. The majority of the book is now valued at nil with a remaining portfolio carrying value of approximately £155 million.

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 £18.4 billion, or 7 per cent, to £260.9 billion compared to 31 December 2009, reflecting continuing active de-risking of the balance sheet by either selling down or reducing holdings in debt securities and available-for-sale positions and deleveraging by customers in Wholesale's strategic segments. In the last 12 months asset balances have declined by £50.9 billion, or 16 per cent.

Loans and advances to customers decreased by £5.8 billion, or 3 per cent, to £186.0 billion. In Corporate Markets, balances decreased by £4.0 billion, or 2 per cent, as customers continued to deleverage their balance sheets. In Asset Finance, the decrease of £1.5 billion, or 13 per cent, reflected lower customer demand in the current economic and market conditions. Loans and advances to banks decreased £5.6 billion, or 30 per cent, as the division refocused the balance sheet. Available-for-sale financial asset balances reduced by £3.4 billion, or 9 per cent, to £33.5 billion and debt securities decreased by £3.6 billion, or 11 per cent, to £28.1 billion as Corporate Markets reduced the balance sheet by either selling down or not replenishing total holdings after amortisations or maturities.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Customer deposits increased by 4 per cent to £159.2 billion from £153.4 billion at the end of 2009. An increase in customer deposits in Corporate Markets of £4.1 billion and in repo balances of £9.5 billion was partly offset by a decline in price sensitive deposits in Treasury and Trading of £7.8 billion.

Risk-weighted assets decreased by £5.3 billion, or 2 per cent, to £280.7 billion, reflecting the balance sheet reductions, partly offset by risk migration.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Corporate Markets

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	1,741	2,005	(13)	1,751
Other income	1,356	1,206	12	1,335
Total income	3,097	3,211	(4)	3,086
Costs:				
Operating expenses	(1,172)	(1,129)	(4)	(1,332)
Impairment of tangible fixed assets	(150)	–		–
	(1,322)	(1,129)	(17)	(1,332)
Trading surplus	1,775	2,082	(15)	1,754
Impairment	(2,799)	(9,334)	70	(5,521)
Share of results of joint ventures and associates	(61)	(483)	87	(234)
Loss before tax and fair value unwind	(1,085)	(7,735)	86	(4,001)
Cost:income ratio (excl. impairment of tangible fixed assets)	37.8%	35.2%		43.2%
Impairment as a % of average advances (annualised)	2.85%	7.05%		5.06%

Key balance sheet items	As at 30 June 2010 £bn	As at 30 June 2009 £bn	Change since 31 Dec 2009 %	As at 31 Dec 2009 £bn
Loans and advances to customers	173.7	197.8	(2)	177.7
Customer deposits	93.8	95.9	5	89.7
Risk-weighted assets	259.7	263.3	(2)	263.8

Loss before tax and fair value unwind decreased by £6,650 million to £1,085 million, due to a decrease in impairment losses.

Total income decreased by 4 per cent, driven by a decrease in net interest income of £264 million or 13 per cent. This was primarily due to increased funding costs in Wholesale Markets, one-off break costs on surplus fixed-term funding in Wholesale Equity and lower asset balances due to the ongoing focus on reducing the balance sheet. Other income increased £150 million, or 12 per cent, mainly due to realised gains from asset sales in Corporate and write-ups and exits from private equity portfolios in Wholesale Equity.

Operating expenses increased by 4 per cent to £1,172 million due to continued investment in business support as well as customer facing resource and systems, partially offset by synergy benefits.

Impairment losses decreased by £6,535 million, to £2,799 million, reflecting a sustained decrease since the peak in the first half of 2009. The decrease reflects reductions, notably in HBOS Corporate Real Estate and related portfolios and HBOS Corporate (UK and US) portfolios.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Treasury and Trading

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	188	319	(41)	225
Other income	167	229	(27)	9
Total income	355	548	(35)	234
Operating expenses	(96)	(88)	(9)	(99)
Profit before tax and fair value unwind	259	460	(44)	135
Cost:income ratio	27.0%	16.1%		42.3%

Key balance sheet and other items	As at 30 June 2010 £bn	As at 30 June 2009 £bn	Change since 31 Dec 2009 %	As at 31 Dec 2009 £bn
Loans and advances to customers	2.2	6.5	(12)	2.5
Customer deposits(1)	65.4	85.0	3	63.7
Risk-weighted assets	6.6	11.2	(21)	8.4

(1) Of which repos represent £45.0 billion (31 December 2009: £35.5 billion, 30 June 2009: £58.9 billion).

Profit before tax and fair value unwind decreased by £201 million to £259 million due to lower income.

Income decreased by £193 million, or 35 per cent, in the first half of 2010 compared to the first half of 2009 which benefited from greater volatility in the markets and increased customer demand for interest rate and foreign exchange risk management products. Trading flows are managed with the overriding aim of providing a service to customers, whilst maintaining a conservative risk appetite.

Operating expenses increased by £8 million to £96 million reflecting higher staff costs.

LLOYDS BANKING GROUP PLC

WHOLESALE (continued)

Asset Finance

	Half-year to 30 June 2010 £m	Half- year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	218	171	27	239
Other income	692	719	(4)	701
Total income	910	890	2	940
Operating expenses	(614)	(734)	16	(724)
Trading surplus	296	156	90	216
Impairment	(192)	(404)	52	(424)
Share of results of joint ventures and associates	1	(2)		(1)
Profit (loss) before tax and fair value unwind	105	(250)		(209)
Cost:income ratio	67.5%	82.5%		77.0%
Impairment as a % of average advances (annualised)	3.20%	5.96%		5.77%

Key balance sheet and other items	As at 30 June 2010 £bn	As at 30 June 2009 £bn	Change since 31 Dec 2009 %	As at 31 Dec 2009 £bn
Loans and advances to customers	10.1	12.1	(13)	11.6
Operating lease assets	3.2	3.7	(6)	3.4
Risk-weighted assets	14.4	13.4	4	13.8

Profit before tax and fair value unwind was £105 million compared to a loss before tax and fair value unwind of £250 million in the first half of 2009. The £355 million improvement was due to lower impairment losses, lower operating expenses, and higher net interest income.

Total income increased by £20 million, or 2 per cent, to £910 million as lower business volumes on assets held under operating leases were offset by increased yields on new business written.

Operating expenses decreased by £120 million, or 16 per cent, to £614 million, reflecting reduced depreciation charges on assets held under operating leases due to lower fleet size, year-on-year improvement in used car values, cost management and savings achieved from integration.

Impairment losses decreased by £212 million to £192 million, reflecting a stabilising economic environment and an improvement in market conditions for both the retail and non-retail consumer finance businesses. There has been a reduction in new cases entering arrears, along with the reduced book size and better mix in the credit quality of new business being written over the last two years.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	596	597	–	620
Other income	605	554	9	574
Total income	1,201	1,151	4	1,194
Operating expenses	(744)	(769)	3	(775)
Trading surplus	457	382	20	419
Impairment	(2,228)	(1,469)	(52)	(2,609)
Share of results of joint ventures and associates	(2)	(11)	82	(10)
Loss before tax and fair value unwind	(1,773)	(1,098)	(61)	(2,200)
Fair value unwind	164	756		186
Loss before tax	(1,609)	(342)		(2,014)
Wealth	156	101	54	97
International	(1,929)	(1,199)	(61)	(2,297)
Loss before tax and fair value unwind	(1,773)	(1,098)	(61)	(2,200)
Banking net interest margin	1.65%	1.82%		1.61%
Cost:income ratio	61.9%	66.8%		64.9%
Impairment as a % of average advances (annualised)	6.56%	4.55%		7.40%

Key balance sheet and other items	As at 30 June 2010 £bn	As at 30 June 2009 £bn	Change since 31 Dec 2009 %	As at 31 Dec 2009 £bn
Loans and advances to customers	57.6	58.6	(9)	63.5
Customer deposits	30.3	29.7	4	29.0
Risk-weighted assets	59.3	57.9	(6)	63.2

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

Key highlights

- Loss before tax amounted to £1,609 million compared to £342 million in the first half of 2009. The increased loss includes a £592 million lower credit in respect of fair value unwind.

- Loss before tax and fair value unwind amounted to £1,773 million, compared to £1,098 million in the first half of 2009, mainly due to higher impairment levels, primarily in Ireland.

- Total income increased by 4 per cent to £1,201 million, reflecting the positive impact of higher global stock markets and favourable foreign exchange movements, partly offset by lower net interest margins.

- Net interest income was in line with the first half of 2009 at £596 million, as the impact of foreign currency movements, particularly the Australian dollar, and income on the £7 billion European loan portfolio transferred from Wholesale division in the second half of 2009 were offset by a 17 basis points decline in the banking net interest margin. The margin decline reflects the impact of higher impaired loan balances and lower deposit margins in the continuing low base rate environment but has stabilised in the first half of 2010, compared to the second half of 2009.

- Operating expenses decreased by 3 per cent to £744 million, with cost savings achieved from integration, particularly in Asset Management, partly offset by investments in International's German deposit taking operation, increased resources in business support functions and stronger foreign currency rates.

- Impairment losses increased to £2,228 million, compared to £1,469 million in the first half of 2009, reflecting the deterioration in the economic environment in Ireland. Based on the Group's current assessment of expected economic conditions, reductions are expected in the Wealth and International impairment charge in the second half of 2010, although economic conditions continue to be monitored closely, particularly in Ireland.

- Loans and advances to customers decreased by 9 per cent to £57.6 billion, reflecting foreign exchange movements of £3.0 billion, net repayments of £0.8 billion, and additional impairment provisions in the International businesses.

- Customer deposits increased by 4 per cent to £30.3 billion, due to inflows in UK Private Banking and Bank of Scotland Germany, partly offset by outflows in Ireland following the closure of the Irish retail branch network.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

Financial performance by business unit
Wealth

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	161	198	(19)	185
Other income	539	490	10	513
Total income	700	688	2	698
Operating expenses	(520)	(560)	7	(559)
Trading surplus	180	128	41	139
Impairment	(23)	(26)	12	(45)
Share of results of joint ventures and associates	(1)	(1)	–	3
Profit before tax and fair value unwind	156	101	54	97
Cost:income ratio	74.3%	81.4%		80.1%
Impairment as a % of average advances (annualised)	0.49%	0.53%		0.89%

Key balance sheet and other items	As at 30 June 2010 £bn	As at 30 June 2009 £bn	Change since 31 Dec 2009 %	As at 31 Dec 2009 £bn
Loans and advances to customers	9.2	9.6	–	9.2
Customer deposits	24.8	24.1	7	23.2
Risk-weighted assets	10.7	10.9	7	10.0

Profit before tax and fair value unwind increased by 54 per cent to £156 million due to a combination of higher income and lower costs.

Total income increased by £12 million, or 2 per cent, to £700 million. Net interest income decreased by £37 million, or 19 per cent, to £161 million reflecting continued margin compression driven by low base rates and a competitive deposit market. Other income increased by £49 million, or 10 per cent, to £539 million driven by increasing global stock markets and gains on sale of Employee Equity Solutions and Bank of Scotland Portfolio Management Service, partly offset by lower asset management fee income following the sale of the external fund management business of Insight Investments in November 2009.

Operating expenses decreased by £40 million, or 7 per cent, to £520 million driven by cost savings from integration, particularly in the Asset Management business which also includes the impact of the sale of Insight Investments.

Impairment losses decreased by £3 million to £23 million as impaired asset trends stabilised across the Wealth businesses reflecting stabilising economic conditions.

Customer deposits have increased by £1.6 billion, or 7 per cent, to £24.8 billion reflecting growth in the UK Private Banking business driven by the success of the Reserve savings account.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

Funds under management

	As at 30 June 2010 £bn	As at 30 June 2009 £bn	As at 31 Dec 2009 £bn
Scottish Widows Investment Partnership (SWIP) and Insight(1):			
Internal	110.9	92.0	111.7
External	25.5	113.0	30.0
	136.4	205.0	141.7
Other Wealth:			
St James's Place	22.4	16.9	21.4
Invista	5.4	5.4	5.4
Private and International Banking	14.3	16.7	15.6
Closing funds under management	178.5	244.0	184.1

		Half-year to 30 June 2010 £bn	Half-year to 30 June 2009 £bn	Half-year to 31 Dec 2009 £bn
Opening funds under management		184.1	244.9	244.0
Inflows:				
SWIP and Insight	– internal	1.1	4.1	3.0
	– external	2.0	17.7	15.4
Other		3.7	2.0	2.1
		6.8	23.8	20.5
Outflows:				
SWIP and Insight	– internal	(0.5)	(3.7)	(3.1)
	– external	(6.6)	(12.8)	(13.6)
Other		(2.1)	(2.3)	(1.7)
		(9.2)	(18.8)	(18.4)
Investment return, expenses and commission		(2.5)	(5.9)	22.3
Net operating increase (decrease) in funds(2)		(4.9)	(0.9)	24.4
Sale of Insight and Bank of Scotland Portfolio Management Service(1)		(0.7)	–	(84.3)
Closing funds under management		178.5	244.0	184.1

(1) Insight Investments was sold on 2 November 2009. The Bank of Scotland Portfolio Management Service business was transferred to Rathbone Brothers Plc over the course of the first half of 2010.

(2) The movement in funds under management includes movements in respect of Insight's external fund management business up to disposal on 2 November 2009. All funds which will continue to be managed by SWIP post-transition are included within closing funds under management.

Funds under management of £178.5 billion decreased by £5.6 billion from December 2009. Net outflows in the first half of 2010 were £2.4 billion, with net inflows in Private Banking and St. James's Place more than offset by a withdrawal from a single institutional investor which represented the majority of the external outflow in SWIP. The fall in global equity values, particularly in the second quarter of 2010, has reduced funds under management by a further £2.5 billion.

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WEALTH AND INTERNATIONAL (continued)

International

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Change since 30 June 2009 Constant currency %	Half-year to 31 Dec 2009 £m
Net interest income	435	399	9	(1)	435
Other income	66	64	3	(22)	61
Total income	501	463	8	(4)	496
Operating expenses	(224)	(209)	(7)	(2)	(216)
Trading surplus	277	254	9	(9)	280
Impairment	(2,205)	(1,443)	(53)	(45)	(2,564)
Share of results of joint ventures and associates	(1)	(10)	90		(13)
Loss before tax and fair value unwind	(1,929)	(1,199)	(61)	(58)	(2,297)
Cost:income ratio	44.7%	45.1%			43.5%
Impairment as a % of average advances (annualised)	7.54%	5.31%			8.58%

Key balance sheet and other items	As at 30 June 2010 £bn	As at 30 June 2009 £bn	Change since 31 Dec 2009 %	Change since 31 Dec 2009 Constant currency %	As at 31 Dec 2009 £bn
Loans and advances to customers	48.4	49.0	(11)	(6)	54.3
Customer deposits	5.5	5.6	(5)	–	5.8
Risk-weighted assets	48.6	47.0	(9)	(4)	53.2

Loss before tax and fair value unwind increased by £730 million to £1,929 million due to an increase in impairment losses, reflecting a continued high level of impairment charges in Ireland. Loss before tax is £368 million lower than the second half of 2009.

Total income increased by 8 per cent to £501 million due to foreign exchange movements, in particular the Australian dollar which is 19 per cent stronger on average than in the first half of 2009. In constant currency, total income decreased by 4 per cent reflecting the increased strain of higher impaired assets, partly offset by additional income on the £7 billion European loan portfolio transferred from Wholesale division in the second half of 2009.

Operating expenses increased by 7 per cent to £224 million driven by foreign exchange movements. In constant currency, operating expenses increased by 2 per cent reflecting the development of International's deposit taking operation in Germany and increased risk management resources to manage impaired asset portfolios in Ireland and Australia.

LLOYDS BANKING GROUP PLC

WEALTH AND INTERNATIONAL (continued)

Impairment losses have increased by £762 million, or 53 per cent, to £2,205 million driven by losses in Ireland where the deterioration in economic conditions has led to higher impairments, particularly in commercial real estate. Real estate exposures in Australia and Wholesale Europe are also the key drivers of impairment in those locations.

Impairment losses and loans and advances to customers are summarised by key geography in the following table.

	Impairment losses			Loans and advances to customers	
	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m	As at 30 June 2010 £m	As at 31 Dec 2009 £m
Ireland	1,557	1,027	1,922	21,511	24,948
Australia	454	408	441	12,686	12,993
Wholesale Europe	145	3	126	6,808	8,538
Latin America/Middle East	43	(2)	71	746	639
Netherlands	6	7	4	6,694	7,229
	2,205	1,443	2,564	48,445	54,347

Balance sheet progress

Loans and advances to customers decreased by £5.9 billion or 11 per cent, to £48.4 billion due to foreign exchange movements of £3.0 billion, net repayments of £0.8 billion across all businesses and higher impairment provisions. In the international businesses the Group has reduced drawn exposures in local currency with any new to bank assets written within the tightened risk appetite that has been applied across the division since early 2009. Significant focus remains on supporting existing customers through delivery of work-out strategies designed to maximise returns.

Customer deposits decreased by 5 per cent to £5.5 billion. Bank of Scotland Germany has raised over €2 billion of deposits since its launch in January 2009 but this increase in deposits was more than offset by a fall in customer deposits in Ireland following the closure of the division's Irish retail business.

LLOYDS BANKING GROUP PLC

INSURANCE

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	(136)	(158)	14	(129)
Other income	1,320	1,479	(11)	1,465
Total income	1,184	1,321	(10)	1,336
Insurance claims	(261)	(294)	11	(343)
Total income, net of insurance claims	923	1,027	(10)	993
Operating expenses	(423)	(496)	15	(478)
Share of results of joint ventures and associates	(10)	(8)	(25)	(14)
Profit before tax and fair value unwind	490	523	(6)	501
Fair value unwind	(21)	(126)	83	77
Profit before tax	469	397	18	578
Profit before tax and fair value unwind – before impact of PPI new business closure	560	523	7	501
Other income – impact of PPI new business closure	(70)	–		–
Profit before tax and fair value unwind	490	523	(6)	501
Profit before tax and fair value unwind by business unit				
Life, Pensions and Investments:				
Before impact of PPI new business closure	343	328	5	289
PPI new business closure	(70)	–		–
UK business	273	328	(17)	289
European business	19	16	19	59
General Insurance	195	186	5	181
Other(1)	3	(7)		(28)
Profit before tax and fair value unwind	490	523	(6)	501
Life, Pensions and Investments sales (PVNBP)	6,331	7,361	(14)	6,158

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

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Key highlights

- Profit before tax increased by 18 per cent to £469 million, compared to £397 million in the first half of 2009.

- Profit before tax and fair value unwind increased by 7 per cent, or £37 million, to £560 million, before a non-recurring charge of £70 million in respect of the Group's decision to cease writing new payment protection insurance (PPI) business. After this charge, profit before tax and fair value unwind amounted to £490 million, a decrease of 6 per cent on the first half of 2009.

- Total income net of insurance claims decreased by 10 per cent or £104 million to £923 million largely due to the £70 million non-recurring charge for the closure to new business of PPI.

- Operating expenses have decreased by 15 per cent or £73 million to £423 million due to a continued focus on cost management and delivery of integration synergies.

- Life, Pensions and Investments sales decreased by 14 per cent to £6,331 million based on the Present Value of New Business Premiums (PVNBP) primarily due to the withdrawal of certain HBOS legacy products. Sales of OEIC and higher margin protection products increased by 9 per cent and 6 per cent respectively.

- General Insurance profits increased by 5 per cent to £195 million primarily due to integration synergies.

- Capital management initiatives resulted in £2 billion mitigation of the potential impact of Basel III.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Life, Pensions and Investments

UK business

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Net interest income	(116)	(146)	21	(127)
Other income	645	772	(16)	702
Total income	529	626	(15)	575
Operating expenses	(256)	(298)	14	(286)
Profit before tax and fair value unwind	273	328	(17)	289
Profit before tax and fair value unwind – before impact of PPI new business closure	343	328	5	289
Other income – impact of PPI new business closure	(70)	–		–
Profit before tax and fair value unwind	273	328	(17)	289
Profit before tax analysis				
New business profit – insurance business(1)	166	175	(5)	153
– investment business(1)	(34)	(96)	65	(100)
Total new business profit	132	79	67	53
Existing business profit(2)	234	192	22	239
Experience and assumption changes(2)	(23)	57		(3)
Profit before tax and fair value unwind – before impact of PPI new business closure	343	328	5	289
Other income – PPI new business closure	(70)	–		–
Profit before tax and fair value unwind	273	328	(17)	289

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

(2) The disclosure of existing business profit has been changed to better reflect the performance of the business. Existing business profit includes the expected return on shareholder's net assets and experience and assumptions changes are disclosed separately.

Life, Pensions and Investments UK delivered profit growth of £15 million, or 5 per cent, to £343 million, before taking into account the non-recurring £70 million charge due to the Group's decision to cease writing new payment protection business. After this charge, profit before tax and fair value unwind was £273 million, a decrease of 17 per cent compared to the equivalent period in 2009.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Total new business profit increased by £53 million, or 67 per cent, to £132 million. This increase primarily reflects the progress made on product participation choices and other integration activities within both the Bancassurance and Intermediary channels.

The £9 million fall in Insurance new business profits reflects the withdrawal of guaranteed bonds sold through the HBOS branch network, a significant factor in the 20 per cent reduction in Bancassurance sales. This was partially offset by profits from Retirement income products.

Investment new business losses reduced by 65 per cent to £34 million reflecting a reduction in initial commission on OEICs sold through both the Lloyds TSB and HBOS branch networks and the withdrawal of the HBOS individual pension products sold through the Intermediary channel. After an initial decline in sales volumes in the period following the integration of the Intermediary sales forces in July 2009 and the withdrawal of lower returning HBOS products, intermediated sales have recovered and were 26 per cent higher in the first half of 2010 compared to the second half of 2009.

Existing business profit increased by £42 million, or 22 per cent, to £234 million. This predominantly reflects a higher assumed rate of return and higher asset values following improved market conditions in the second half of 2009.

Experience and assumption changes include a charge of £132 million arising as a result of a review of charging between the funds of Clerical Medical prior to the acquisition of HBOS. This charge has largely been offset by the appropriate release of fair value provisions. The £23 million adverse impact of experience and assumption changes in the period includes short-term persistency experience.

The capital positions of the UK life insurance companies within the Insurance division remain robust. As at 30 June 2010, the estimated Insurance Groups Directive (IGD) capital surplus for the Scottish Widows Insurance group was £1.3 billion (31 December 2009: £1.3 billion), and the estimated IGD capital surplus for the HBOS Insurance group was £1.7 billion (31 December 2009: £1.6 billion).

European business

Profit before tax increased by £3 million to £19 million, primarily as a result of continuing strategic initiatives to reduce operating expenses. An improved return on existing business was offset by lower new business profits driven by lower sales due to economic and market conditions.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

New business

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

Analysis by product	UK	Europe	Half-year to 30 June 2010 Total	UK	Europe	Half-year to 30 June 2009 Tota	Change since 30 June 2009	Half-year to 31 Dec 2009 Total
	£m	£m	£m	£m	£m	£m	%	£m
Protection	280	16	296	264	16	280	6	288
Payment protection	54	–	54	83	–	83	(35)	70
Savings and investments	925	112	1,037	1,465	113	1,578	(34)	1,423
Individual pensions	942	52	994	1,401	64	1,465	(32)	995
Corporate and other pensions	1,437	–	1,437	1,560	–	1,560	(8)	1,040
Retirement income	536	–	536	570	–	570	(6)	317
Managed fund business	70	–	70	76	–	76	(8)	70
Life and pensions	4,244	180	4,424	5,419	193	5,612	(21)	4,203
OEICs	1,907	–	1,907	1,749	–	1,749	9	1,955
Total	6,151	180	6,331	7,168	193	7,361	(14)	6,158
Analysis by channel								
Bancassurance ex payment protection	2,902	–	2,902	3,591	–	3,591	(19)	3,253
Payment protection	54	–	54	83	–	83	(35)	70
Bancassurance	2,956	–	2,956	3,674	–	3,674	(20)	3,323
Intermediary	2,921	180	3,101	3,313	193	3,506	(12)	2,679
Direct	274	–	274	181	–	181	51	156
Total	6,151	180	6,331	7,168	193	7,361	(14)	6,158

The present value of new business premiums has reduced by 14 per cent, to £6,331 million. This largely reflects the withdrawal of certain HBOS legacy investment and individual pension products with lower returns, partially offset by higher volumes of OEICs and higher margin protection products which increased by 9 per cent and 6 per cent respectively.

Savings and investment sales reduced by 34 per cent following the withdrawal in the second half of 2009 of guaranteed bonds sold through the HBOS Bancassurance channel. The reduction in individual pension sales reflects the closure to new business during 2009 of certain products sold through the HBOS intermediary channel. The performance of key products in the ongoing product suite continues to improve with, for example, sales of the flagship pensions product, Retirement Account, increasing by 47 per cent.

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

Funds under management

The table below shows the Life, Pensions and Investment entities' funds within the Insurance division. These are predominantly managed within the Group by the Wealth and International division.

	Half-year to 30 June 2010 £bn	Half-year to 30 June 2009 £bn	Half-year to 31 Dec 2009 £bn
Opening funds under management	122.1	113.7	111.4
UK business			
Premiums	6.3	6.4	5.8
Claims and surrenders	(8.1)	(6.5)	(6.7)
Transfers related to the sale of Insight	–	–	(3.3)
Net outflow of business	(1.8)	(0.1)	(4.2)
Investment return, expenses and commission	(0.6)	(1.9)	14.2
Other movements(1)	4.1	–	–
Net movement	1.7	(2.0)	10.0
European business			
Net movement	(0.1)	(0.3)	0.9
Dividends and capital repatriation	(0.5)	–	(0.2)
Closing funds under management	123.2	111.4	122.1
Managed by the Group	103.4	99.7	102.4
Managed by third parties	19.8	11.7	19.7
Closing funds under management	123.2	111.4	122.1

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

LLOYDS BANKING GROUP PLC

INSURANCE (continued)

General Insurance	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009 £m
Home insurance				
Underwriting income (net of reinsurance)	455	450	1	447
Commission receivable	35	23	52	48
Commission payable	(70)	(46)	(52)	(48)
	420	427	(2)	447
Payment protection insurance				
Underwriting income (net of reinsurance)	292	379	(23)	352
Commission receivable	(23)	29		(16)
Commission payable	(134)	(229)	41	(166)
	135	179	(25)	170
Other				
Underwriting income (net of reinsurance)	3	5	(40)	3
Commission receivable	22	47	(53)	22
Commission payable	(9)	(30)	70	2
Other (including investment income)	(9)	(10)	10	4
	7	12	(42)	31
Net operating income	562	618	(9)	648
Claims paid on insurance contracts (net of reinsurance)	(261)	(294)	11	(343)
Operating income, net of claims	301	324	(7)	305
Operating expenses	(106)	(138)	23	(124)
Profit before tax and fair value unwind	195	186	5	181
Combined ratio	77%	81%		84%

Profit before tax and fair value unwind from General Insurance increased by 5 per cent to £195 million, due primarily to lower claims and reduced operating expenses.

Underwriting income from home insurance showed growth of 1 per cent to £455 million. Home commission payable was adversely impacted by the alignment of commission arrangements between the legacy businesses during the period.

Payment protection insurance underwriting income decreased by £87 million, or 23 per cent, to £292 million reflecting the impact on new business volumes of the market wide move to monthly premiums and the decline of historic single premium business. Changes in commissions reflect lower volumes and the impact of cancellations.

Claims were 11 per cent lower than the first half of 2009 at £261 million, mainly due to a reduction in unemployment claims. Home claims were affected by adverse weather related experience during January 2010, although this impact was partially offset by benign weather thereafter.

Total operating expenses decreased by £32 million, or 23 per cent, to £106 million compared to the first half of 2009 as a result of continued focus on cost management and the delivery of integration savings.

LLOYDS BANKING GROUP PLC

GROUP OPERATIONS

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009(1) £m	Change since 30 June 2009 %	Half-year to 31 Dec 2009(1) £m
Net interest income	(36)	(34)	(6)	(35)
Other income	15	21	(29)	(1)
Total income	(21)	(13)	(62)	(36)
Direct costs:				
Information technology	(598)	(621)	4	(599)
Operations	(290)	(306)	5	(308)
Property	(484)	(494)	2	(482)
Procurement	(71)	(79)	10	(86)
Support functions	(60)	(58)	(3)	(67)
	(1,503)	(1,558)	4	(1,542)
Result before recharges to divisions	(1,524)	(1,571)	3	(1,578)
Total net recharges to divisions	1,467	1,515	(3)	1,460
Share of results of joint ventures and associates	1	1		2
Loss before tax and fair value unwind	(56)	(55)	(2)	(116)
Fair value unwind	–	–	–	22
Loss before tax	(56)	(55)	(2)	(94)

(1) 2009 comparative figures have been amended to reflect the impact of centralising operations across the Group as part of the integration programme. To ensure a fair comparison of 2010 performance, 2009 direct costs have been increased with an equivalent offsetting increase in recharges to divisions.

Financial performance
2010 direct costs decreased by £55 million, or 4 per cent, to £1,503 million compared to the first half of 2009 and by £39 million, or 3 per cent, from the second half of 2009 reflecting the continued focus on cost management and the delivery of integration synergy savings.

IT costs decreased by £23 million, or 4 per cent, to £598 million from the first half of 2009, with integration synergy savings offsetting inflationary rises.

Operations costs decreased by £16 million, or 5 per cent, to £290 million, compared to the first half of 2009 through the continuing rationalisation of our major Operations functions.

Group Property costs decreased by £10 million, or 2 per cent, to £484 million, compared to the first half of 2009 as the consolidation of the heritage property portfolios continues to deliver integration synergy benefits.

Procurement costs decreased by £8 million, or 10 per cent, to £71 million, compared to the first half of 2009 reflecting the impact of negotiated lower third party costs on centrally managed contracts. The increase in Procurement costs in the second half of 2009 was due to an £11 million charge in respect of joint ventures.

Support function costs increased by £2 million to £60 million compared to the first half of 2009 largely as a result of further investment in the Risk function in line with increasing regulatory requirements. The £7 million reduction in Support function costs from the second half of 2009 is due to the completion of payments filtering investment in 2009.

LLOYDS BANKING GROUP PLC

CENTRAL ITEMS

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Net interest income	(296)	(193)	(622)
Other income	840	689	1,091
Total income	544	496	469
Operating expenses	(117)	(103)	(191)
Trading surplus	427	393	278
Share of results of joint ventures and associates	1	4	(5)
Profit before tax and fair value unwind	428	397	273
Fair value unwind	(866)	(1,506)	(613)
Loss before tax	(438)	(1,109)	(340)

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

Total income increased by £48 million to £544 million. This reflects a £192 million increase in the fair value of the equity conversion feature of the Group's Enhanced Capital Notes and an increase in the fair value of other derivatives which cannot be mitigated through hedge accounting of £185 million, partially offset by a decrease of £322 million in gains on the exchange of certain debt securities. These gains arose from a number of transactions undertaken as part of the Group's management of capital which resulted in the exchange of certain debt securities for ordinary shares or other debt instruments. These transactions resulted in gains of £423 million in the first half of 2010 compared to gains of £745 million in the first half of 2009.

Operating expenses increased by £14 million to £117 million due to an increase in pension costs held centrally following the alignment of heritage processes, partially offset by lower professional fees and other costs associated with capital transactions and other projects.

LLOYDS BANKING GROUP PLC

ADDITIONAL INFORMATION ON A COMBINED BUSINESSES BASIS (UNAUDITED)

LLOYDS BANKING GROUP PLC

1. Basis of preparation of combined businesses information

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

The acquisition of HBOS plc on 16 January 2009 has had a significant effect on the comparability of the Group's financial position and results with prior periods.

In order to provide a more comparable representation of business performance, the results of the Group's segments are presented on a 'combined businesses' basis. The key principles adopted in the preparation of the combined businesses basis of reporting are described below.

- In order to reflect the impact of the acquisition of HBOS, the following adjustments have been made:
  - the results for the half-year ended 30 June 2009 assume HBOS had been owned throughout the full period;
  - the gain on acquisition of HBOS (in the half-year ended 30 June 2009) and amortisation of purchased intangible assets have 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 present better the underlying business performance the following items, not related to acquisition accounting, have also been excluded:
  - integration costs;
  - insurance and policyholder interests volatility;
  - the Government Asset Protection Scheme (GAPS) fee paid in December 2009;
  - goodwill impairment; and
  - the curtailment gain in respect of the Group's defined benefit pension schemes.

The tables below set out a reconciliation from the published statutory results to the combined businesses results:

LLOYDS BANKING GROUP PLC

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

		Removal of:				
Half-year to 30 June 2010	Lloyds Banking Group statutory £m	Curtailment gain and acquisition related items(1) £m	Volatility £m	Insurance gross up £m	Fair value unwind £m	Combined businesses £m
Net interest income	7,038	–	11	(321)	183	6,911
Other income	8,742	–	188	(2,686)	(413)	5,831
Total income	15,780	–	199	(3,007)	(230)	12,742
Insurance claims	(3,189)	–	–	2,926	2	(261)
Total income, net of insurance claims	12,591	–	199			