Lloyds Banking Group plc
Form 6-K
September 03, 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

September 3, 2010

Lloyds Banking Group plc

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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Form F-3 (File No. 333-167844) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.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, supersedes and replaces the Report on Form 6-K filed August 18, 2010 and is being incorporated by reference into the Registration Statement with File No. 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 76 to 110 as discussed on pages 2 to 3. 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 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 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 40)				
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

GROUP PERFORMANCE (UNAUDITED)
(STATUTORY BASIS – IFRS)

	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 £m
Net interest income	7,038	4,499	56	4,527
Other income	8,742	8,201	7	28,070
Total income	15,780	12,700	24	32,597
Insurance claims	(3,189)	(2,902)	(10)	(19,117)
Total income, net of insurance claims	12,591	9,798	29	13,480
Government Asset Protection Scheme (GAPS) fee	-	-		(2,500)
Other operating expenses	(5,811)	(6,464)	10	(7,020)
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)
Share of results of joint ventures and associates	(61)	(504)	88	(248)
Gain on acquisition	-	11,173		-
Profit (loss) before tax	1,296	5,950	(78)	(4,908)
Taxation	(630)	1,203		708
Profit (loss) for the period	666	7,153	(91)	(4,200)

(1) The Group's consolidated IFRS results for the half-year to 30 June 2009 include the results of HBOS only from the date of its acquisition on 16 January 2009.

Profit before tax for the half-year to 30 June 2010 was £1,296 million compared to a profit before tax for the half-year to 30 June 2009 of £5,950 million. However, the profit before tax for the half-year to 30 June 2009 included a gain of £11,173 million arising on the acquisition of HBOS, which more than offset the significant post-acquisition losses incurred by HBOS in the half-year to 30 June 2009.

Net interest income increased from £4,499 million to £7,038 million as a result of higher asset pricing and compression of the spread between base rate and LIBOR which more than offset the impact of lower deposit margins, due to continued low base rate and ongoing competition for customer balances. Additionally, there was a significant reduction in the negative impact of the fair value unwind on net interest income; the liability management exercises undertaken by the Group since the acquisition of HBOS have had the effect of crystallising a proportion of the gains reflected in the opening balance sheet valuation of HBOS's own debt and there has also been a benefit from revised expectations of future impairment losses likely to emerge from certain retail lending portfolios.

Other income increased from £8,201 million to £8,742 million. This is mainly due to an increase of £1,336 million in net trading income.

Total income, net of insurance claims, includes gains of £423 million arising from liability management transactions, compared to gains of £745 million in the half-year to 30 June 2009. These gains arise from the Group exchanging certain existing subordinated debt securities for new subordinated debt securities or ordinary shares, with the gains being the difference between the carrying amount of the securities extinguished and the fair value of the new securities issued together with related fees and costs.

Insurance claims increased by 10 per cent from £2,902 million to £3,189 million.

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GROUP PERFORMANCE (UNAUDITED) (continued)

Total operating expenses decreased by 10 per cent from £6,464 million to £5,811 million. Operating expenses have been reduced by a curtailment gain of £1,019 million arising from changes to the terms of the Group's principal UK defined benefit pension schemes. Underlying staff costs excluding the curtailment gain increased from £3,092 million to £3,221 million, an increase of 4 per cent. Excluding the curtailment gain, total operating expenses increased from £6,464 million to £6,830 million, an increase of £366 million, or 6 per cent, principally as a result of a charge of £202 million for impairment of tangible fixed assets and the absence of HBOS operating expenses for the pre-acquisition period in the first half of 2009.

The Group's cost:income ratio (total operating expenses divided by total income, net of insurance claims) reduced from 66.0 per cent to 46.2 per cent as a result of total income, net of insurance claims, increasing by 29 per cent (from £9,798 million to £12,591 million) and total operating expenses decreasing by 10 per cent (from £6,464 million to £5,811 million).

Impairment losses decreased from £8,053 million to £5,423 million, a reduction of 33 per cent. The reduction resulted primarily from stablising house prices and the benefit of a continued low interest rate environment together with a lower impairment charge on the Group's wholesale portfolios. These reductions were partially offset by an increased impairment charge on the Group's international portfolios.

There was no gain on acquisition in the half-year to 30 June 2010, compared to a gain of £11,173 million in the half-year to 30 June 2009.

The tax charge for the half-year to 30 June 2010 was £630 million, representing an effective tax rate of 49 per cent. The effective tax rate is higher than the UK statutory rate primarily due to losses in Ireland taxed at lower rates and the non-recognition of the related deferred tax asset.

Loans and advances to customers reduced by £14.9 billion from £627.0 billion at 31 December 2009 to £612.1 billion at 30 June 2010 principally as a result of a £13.0 billion reduction in gross lending balances together with an increase in the allowance for impairment losses on loans and advances to customers from £14.8 billion at 31 December 2009 to £16.7 billion at 30 June 2010.

Customer deposits increased from £406.7 billion at 31 December 2009 to £420.4 billion at 30 June 2010 including an increase in balances held in savings and investment accounts and an increase in balances in respect of securities sold under repurchase agreements.

Debt securities in issue, including those carried at fair value through profit or loss, reduced from £239.7 billion at 31 December 2009 to £227.5 billion at 30 June 2010, reflecting lower wholesale funding requirements, following a reduction in loans and advances to customers, and an increase in funding by customer deposits.

Shareholders' equity increased from £43.3 billion at 31 December 2009 to £46.8 billion at 30 June 2010 mainly as a result of the issue of ordinary shares and the retention of profits attributable to equity shareholders in the first half of 2010.

The core tier 1 capital ratio has increased from 8.1 per cent at 31 December 2009 to 9.0 per cent at 30 June 2010 largely reflecting the issue of ordinary shares in exchange for certain preference shares, preferred securities and undated subordinated debt issued by the Group. Risk-weighted assets have reduced from £493.3 billion to £463.2 billion, due to balance sheet reductions, tighter risk criteria for new business and the improved credit outlook.

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GROUP PERFORMANCE (UNAUDITED)
(COMBINED BUSINESSES BASIS)

	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	7	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)	88	(260)
Profit (loss) before tax and fair value unwind	280	(7,685)		(4,715)
Fair value unwind	1,323	3,728	(65)	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 40 and is reconciled to the statutory basis on pages 41 and 42.

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 89) (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.

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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.

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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 47)	(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 90)	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)

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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 40.

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 41.

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 41. 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 41, not reflected in the Group's statutory consolidated IFRS results.

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SEGMENTAL ANALYSIS BY DIVISION (UNAUDITED) (continued)

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 43.

(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 (IFRS) basis.

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SEGMENTAL ANALYSIS BY DIVISION (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

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SEGMENTAL ANALYSIS BY DIVISION (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

DIVISIONAL PERFORMANCE (UNAUDITED)
(COMBINED BUSINESSES BASIS)
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.