Lloyds Banking Group plc
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

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

5 August 2009

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

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

(Address of principal executive offices)

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

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

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

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

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

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 5 August 2009

re: 2009 Interim Results

2009 Interim Results

News Release

Lloyds Banking Group plc

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (formerly Lloyds TSB Group plc) (the 'Company') for the half-year ended 30 June 2009.

Statutory basis

Statutory results are set out on pages 86 to 115. However, 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. As a result, comparison on a statutory basis of the 2009 interim results (which include the results of HBOS from 16 January 2009) with the same period in 2008 is of limited benefit.

Pro-forma basis

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

• In order to reflect the impact of the acquisition, the following adjustments have been made:

- The 2008 comparative results include the results of HBOS as if it had been acquired on 1 January 2008. The 2009 pro-forma results assume HBOS had been owned throughout the full period.

- The unwind of acquisition-related fair value adjustments are shown as one line in the 2009 pro-forma income statement and have not been back-dated to 2008.

- The gain on acquisition of HBOS and amortisation of purchased intangible assets have been excluded;

• In order to better present the underlying business performance the following items not related to the acquisition have also been excluded:

- The results of BankWest and St. Andrews which were sold in December 2008 and the related loss on disposal;

- Insurance and policyholder interests volatility;

- Integration costs; and
- Goodwill impairment.

The pro-forma balance sheet at 31 December 2008 aggregates the Lloyds TSB Group and the HBOS Group balance sheets at 31 December 2008, adjusted for the subsequent recapitalisation and reflects the fair value adjustments applied to the HBOS balance sheet at 16 January 2009.

Unless otherwise stated income statement commentaries throughout this document compare the half-year ended 30 June 2009 to the half-year ended 30 June 2008, and the balance sheet analysis compares the Group balance sheet at 30 June 2009 to the pro-forma balance sheet at 31 December 2008.

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. 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 results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, the ability to derive cost savings and other benefits as well as to mitigate exposures from the acquisition and integration of HBOS, risks concerning borrower credit quality, market related trends and developments, changing demographic trends, changes in customer preferences, changes to regulation, the policies and actions of Governmental and regulatory authorities in the UK or jurisdictions outside the UK, including other European countries and the US, exposure to regulatory scrutiny, legal proceedings or complaints, competition 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. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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KEY HIGHLIGHTS

'I have a great belief in the exciting prospects for the Group going forward. We are very strongly positioned for long-term success with a highly experienced management team focused on delivering the significant potential of the new business.'

Sir Victor Blank
Chairman

'Our first half loss was driven by the high levels of impairment. The core business delivered a resilient performance, despite the weak economy. We are successfully managing the short-term issues and are well positioned to outperform over the medium term, providing value to our customers and shareholders.'

J Eric Daniels

Group Chief Executive

- **Pro-forma loss of £4.0 billion for the first half** (2008: £2.8 billion profit).

- **Statutory profit before tax of £6.0 billion** (2008: £0.6 billion) includes an £11.2 billion acquisition-related negative goodwill gain.

- **Resilient core businesses performance** despite margin pressure and weak economy. £18 billion of gross mortgage lending: a 27 per cent share of gross lending and 37 per cent of net new lending. 60,000 new commercial accounts: a 24 per cent share of start-ups.

- **Integration ahead of schedule and on track to deliver over £1.5 billion run rate by end 2011.** Over £100 million of cost synergies realised in the half. Annualised run-rate savings of around £700 million expected by the year end.

- **Total impairments significantly higher at £13.4 billion but expected to peak in first half.** Impairments expected to peak in first half reflecting prudent valuation of HBOS's commercial property related assets. HBOS legacy assets account for 80 per cent of first half charge.

- **Robust capital position and strengthened funding profile.** Core tier one capital at 6.3 per cent in line with pro-forma opening position. Wholesale funding more than one year increased from 44 per cent to 47 per cent.

- **Outlook: economy expected to stabilise, with weak upturn in 2010.** As previously announced, expect to report a loss before tax for 2009 (excluding acquisition related negative goodwill gain). Continued pressure on margins more than offset by lower expected impairment charges in second half.

- **Medium term goals reflect economic outlook and significant opportunity to leverage relationship-led model across enlarged business base.** High single-digit income growth within two years. Continued reduction in cost:income ratio. Run-off of around £200 billion of lower return assets to reduce the balance sheet and invest in core relationship businesses.

SUMMARY OF RESULTS

	Half-year to 30 June 2009	Half-year to 30 June 2008	Half-year to 31 Dec 2008
Results	**£m**	£m	£m
Statutory			
Total income, net of insurance claims	**9,798**	4,624	5,244
Operating expenses	**(6,464)**	(2,936)	(3,164)
Trading surplus	**3,334**	1,688	2,080
Impairment	**(8,053)**	(1,099)	(1,913)
Goodwill credit	**11,173**	-	-
Profit (loss) before tax	**5,950**	593	167
Profit (loss) attributable to equity shareholders	**7,095**	570	202
Earnings per share	**41.9p**	9.8p	3.4p

			Change	
Pro-forma (see note 1, page 47)			**%**	
Total income, net of insurance claims	**11,939**	11,180	***7***	10,175
Banking net interest margin	**1.72%**	2.00%		2.01%
Operating expenses	**(5,718)**	(5,871)	***3***	(6,365)
Trading surplus	**6,221**	5,309	***17***	3,810
Impairment	**(13,399)**	(2,514)		(12,366)
Profit (loss) before tax	**(3,957)**	2,775		(9,488)
Profit (loss) attributable to equity shareholders	**(3,124)**	1,954		(6,887)
Earnings per share	**(18.4)p**	24.1p		(74.4)p

	As at	As at
	30 June	31 Dec
Capital and balance sheet	**2009**	2008
Statutory		
Loans and advances to customers	**£652.6bn**	£240.3bn
Customer deposits	**£429.1bn**	£170.9bn
Net assets per share	**122p**	155p
Core tier 1 capital ratio	**6.3%**	5.6%
Tier 1 capital ratio	**8.6%**	8.0%
Total capital ratio	**10.6%**	11.2%
Leverage ratio	**22 times**	27 times
Pro-forma		
Loans and advances to customers	**£652.6bn**	£677.2bn
Customer deposits	**£429.1bn**	£409.2bn
Risk-weighted assets	**£482.5bn**	£498.5bn
Core tier 1 capital ratio	**6.3%**	6.2%
Tier 1 capital ratio	**8.6%**	9.5%
Total capital ratio	**10.6%**	12.2%

GROUP CHIEF EXECUTIVE'S STATEMENT

Summary

2008 was a difficult year for the banking industry and the first half of 2009 proved no less challenging. In the first quarter, the UK experienced the fastest contraction in GDP on record, accompanied by a further sharp drop in residential and commercial property prices. The decline in property prices had a significant impact on the Group's results given the concentration of property assets within the legacy HBOS portfolio. Impairments on these assets were the primary driver behind the substantial losses (before the one time, acquisition related, negative goodwill gain) the Group reported in the half. The level of impairments reflects the prudent approach taken in valuing these assets.

The core business performed well and cost synergies were delivered ahead of schedule. The Group's capital remained robust with core tier 1 capital ratio maintained at 6.3 per cent. The Group's funding profile improved during the period as debt maturities were extended by the issue of longer-term private and public unguaranteed debt.

Although the economic environment remains difficult, the Group is successfully addressing the near term challenges and believes it is well positioned for long-term growth. With impairments anticipated to have peaked in the half, management expects the Group's results to improve in the second half and through 2010.

The Group aims to deliver through the cycle value to its customers and shareholders by focusing on a relationship-led banking model combined with a conservative approach to risk and efficient capital management. Management believes the Group can outperform over the medium to longer-term by reshaping the business and leveraging the scale of its enlarged business franchise.

Results overview

On a statutory basis, the Group reported a profit before tax of £6.0 billion. This includes an £11.2 billion negative goodwill gain associated with the acquisition of HBOS. Excluding this, on a pro-forma basis, the Group reported a £4.0 billion loss for the first half compared to a £2.8 billion profit in the comparable period last year. The loss was driven, as previously guided, by a significant increase in impairments, which rose from £2.5 billion to £13.4 billion. This compares to a charge of £12.4 billion in the second half of 2008. Around 80 per cent of the impairment charge was related to legacy HBOS assets.

Resilient core business performance

Total income net of insurance claims was 7 per cent ahead at £11.9 billion. The adverse impact of lower margins and reduced fee income from loan protection insurance was more than offset by the beneficial impact of lower treasury asset write-downs and profits on debt and capital securities exchanges.

- In Retail, income was down reflecting the impact of lower deposit margins and reduced income on payment protection insurance. Gross mortgage lending was £18 billion with the Group's share maintained at 27 per cent of gross lending. 1 million new current accounts and 2.3 million savings accounts were opened.

- In Wholesale, income benefited from higher sales and trading activity and the absence of treasury write-downs. The Group continued to support its business customers in line with its strategy of through the cycle support. Lending to small business was ahead year-on-year in Lloyds TSB and Bank of Scotland was reopened to new lending; 60,000 new commercial accounts were opened, including a 24 per cent share of all new start-ups.

- In Insurance, income was down with good sales of corporate pensions and protection products being more than offset by lower sales of other products exposed to equities.

- In Wealth and International income fell, primarily reflecting the fall in deposit margins.

Making good progress with the integration

Costs in the half were 3 per cent lower as expenses continued to be tightly managed and acquisition synergies were delivered ahead of schedule. Over £100 million of cost synergies were realised in the half. On the basis of first half initiatives and programmes to be implemented during the second half, the Group expects to exit the year with annualised run-rate savings of around £700 million. The business remains on track to deliver more than £1.5 billion run rate cost savings by the end of 2011.

Detailed understanding of the HBOS book

Impairments in the first half were £13.4 billion, an increase of £10.9 billion on the comparable period last year. Around 80 per cent of the first half charge was associated with legacy HBOS's loans, the majority of which are outside the traditional Lloyds low-risk appetite. In addition, approximately three-quarters of the impairment charge is related to assets intended, as previously disclosed, to be included in the Government Asset Protection Scheme. Lloyds' credit and risk processes are now in place across the Group and all new lending is now being made within the Lloyds risk criteria. Detailed credit reviews of the legacy HBOS portfolio have been completed, providing a highly detailed understanding of the quality of the assets and scale and timing of the losses going forward.

Impairments expected to have peaked in first half

Impairments on retail and corporate assets would normally be expected to peak between one to two years after the trough of a recession. Given the level of provisions taken on the Group's property exposures and management's expectations of the economy going forward, the Group's total impairments are believed to have peaked in the first half.

Robust capital position

The Group's core tier one ratio was 6.3 per cent, in line with the pro-forma opening position. Despite the negative impacts of the significant rise in impairments and pro-cyclicality on risk weighted assets, the robust capital position reflects a number of successful management actions during the half which included the £4 billion ordinary share placing and compensatory open offer in June.

Funding and liquidity strengthened

A number of steps were taken to extend the Group's wholesale funding maturity and further improve its liquidity profile in the half. The Group's loan to deposit ratio (excluding repo activity) improved slightly to 176 per cent and 47 per cent of its wholesale funding had a maturity of over one year (2008: 44 per cent). While the cost of raising longer-term funds remains high, management believe that reducing the Group's reliance on funding with very short maturities is the prudent and appropriate way to manage the balance sheet. Overall the Group raised £34 billion of term debt in the half through selected use of Government credit schemes and issuance of unguaranteed debt in the private and public debt markets.

Delivering sustainable through the cycle value

Going forward, the Group aims to be recognised as the UK's best financial services business and to deliver sustainable, through the cycle value for its customers and shareholders. The principal elements of the Group's strategy remain to focus on its customer relationships, while driving down costs and maintaining effective capital management disciplines within a strong framework of conservative risk management.

Management believes that the Group can consistently outperform by applying its proven low risk relationship banking model across its enlarged business franchise:

- Grow income by deepening its customer relationships to provide customers with the range of products and services they need to manage their finances more effectively;

- Drive down costs by delivering the acquisition cost synergies and continuing to focus on cost efficiencies across the Group;
- Progressively re-deploy capital currently supporting capital intensive low return assets, to reduce the size of the balance sheet and invest in higher return relationship business.

A significant proportion of the Group's capital supports assets which account for a disproportionate level of risk and are not consistent with the strategy of building sustainable, relationship based businesses. These assets account for some £300 billion or around one third of the Group's total balance sheet. Over the next five years, the Group intends to run-off around £200 billion of this portfolio and expects the impact on income to be modest. Given the less capital intensive and higher returning nature of relationship-based businesses, the Group believes it will be able support its growth ambitions whilst shrinking its balance sheet at the same time.

Supported by medium term financial goals

Over the medium term, the Group aims to:

- Deliver high single-digit income growth within two years. In the near-term, income growth is expected to be more modest reflecting subdued economic growth and a slow improvement in asset and deposit margins.
- Continue to deliver annual reductions in its cost:income ratio of 2 per cent per annum with the near-term reduction expected to be higher as the Group delivers acquisition related cost synergies.
- Re-deploy around £200 billion of assets to reduce the balance sheet with up to 50 per cent of the reduction being re-invested in growing its relationship businesses. It is anticipated that the Group's loan to deposit ratio will return to legacy Lloyds TSB levels of approximately 140 per cent over the next few years.

Government Asset Protection Scheme

The Group is working with HM Treasury to finalise the detailed terms and conditions and operational mechanics of the Group's intended participation in the Government's Asset Protection Scheme. The operation of the scheme and the impact on our business (and the consequential impact on our lending and the wider economy) is complex. The Group expects to conclude these discussions and agree terms and conditions which are in the interests of shareholders.

State aid

As a result of the placing and open offer in January, which is considered to constitute State Aid under EU rules, the Group was required to submit a restructuring plan to the European Commission. Although the state aid process is formally one between HM Treasury and the Commission, both prior to and since the submission of the plan on 15 July 2009, we have been working closely with HM Treasury and this will continue throughout the process. It is clearly advantageous for all parties to settle the terms of the restructuring plan as quickly as possible.

Outlook for 2009 and 2010

While the environment will remain challenging, management expects the economy to stabilise in the second half and start recovering slowly in 2010. On this basis, management expects the performance of the Group to improve from the second half, principally as a result of a reduction in the level of impairments. Overall, impairments in the second half of 2009 are expected to be significantly lower than the first half with progressive reductions thereafter.

Opportunities for income growth are expected to increase as business volumes recover and as margins improve. Asset margins should benefit as re-pricing better reflects the real cost of funding and risk and as funding spreads normalise. Deposit margins are expected to improve but more slowly and are likely to remain below the long-term trend for some time given the expectation that base rates rise only slowly. Overall, we expect a significant slowdown in the rate of net interest margin reduction in the second half of the year. Margins are expected to increase in 2010 but not to the levels seen in 2008.

The trading surplus is expected to benefit from the delivery of cost synergies which are expected to be £400 million in 2009 with an annualised run-rate of approximately £700 million by the year end.

Our people

Over the last six months, colleagues throughout the business have shown continued dedication, professionalism and commitment in the face of significant internal and external challenges. It is this approach which makes such a big difference to our business performance, and gives me confidence that we will continue to deliver strong operating and financial results in the years ahead.

J Eric Daniels

Group Chief Executive

PRO-FORMA INFORMATION

The analysis and commentary that is set out on pages 8 to 62 is presented on a pro-forma basis. The basis of preparation of the pro-forma results is set out on pages 47 to 49.

PRO-FORMA CONSOLIDATED INCOME STATEMENT

	Half-year to 30 June 2009 £m	Half-year to 30 June 2008 £m	Half-year to 31 Dec 2008 £m
Net interest income	**6,442**	7,042	7,861
Other income	**5,791**	4,375	2,558
Total income	**12,233**	11,417	10,419
Insurance claims	**(294)**	(237)	(244)
Total income, net of insurance claims	**11,939**	11,180	10,175
Operating expenses	**(5,718)**	(5,871)	(6,365)
Trading surplus	**6,221**	5,309	3,810
Impairment	**(13,399)**	(2,514)	(12,366)
Share of results of joint ventures and associates	**(507)**	(20)	(932)
Profit (loss) before tax - before fair value unwind	**(7,685)**	2,775	(9,488)
Fair value unwind	**3,728**	-	-
Profit (loss) before tax - pro-forma	**(3,957)**	2,775	(9,488)

The basis of preparation of the pro-forma income statement is set out on page 47.

RECONCILIATION OF PRO-FORMA PROFIT (LOSS) BEFORE TAX TO STATUTORY PROFIT FOR THE PERIOD

	Half-year to 30 June 2009 £m	Half-year to 30 June 2008 £m	Half-year to 31 Dec 2008 £m
Profit (loss) before tax - pro-forma	**(3,957)**	2,775	(9,488)
Results of BankWest and St. Andrews	**-**	53	37
Loss on disposal of businesses	**-**	-	(845)
Integration costs	**(358)**	-	-
Volatility (page 53, note 6)	**(591)**	(1,395)	(954)
Insurance grossing adjustment	**7**	10	-
Negative goodwill credit	**11,173**	-	-
Amortisation of purchased intangibles and goodwill impairment	**(604)**	(2)	(256)
Pre-acquisition results of HBOS plc	**280**	(848)	11,673
Profit before tax - statutory	**5,950**	593	167
Taxation	**1,203**	(11)	49
Profit for the period - statutory	**7,153**	582	216

PRO-FORMA PROFIT ANALYSIS BY DIVISION

	Half-year to 30 June 2009 £m	Half-year to 30 June 2008 £m	Half-year to 31 Dec 2008 £m
Retail	**360**	1,741	801
Wholesale	**(3,208)**	37	(10,516)
Insurance	**397**	720	820
Wealth and International	**(342)**	421	(144)
Group Operations and Central items			
Group Operations	**(55)**	(35)	(41)
Central items	**(1,109)**	(109)	(408)
	(1,164)	(144)	(449)
(Loss) profit before tax	**(3,957)**	2,775	(9,488)

PRO-FORMA SUMMARISED CONSOLIDATED BALANCE SHEET

	As at 30 June 2009 £m	As at 31 Dec 2008 £m
Assets		
Cash and balances at central banks	**60,384**	7,510
Derivatives, trading and other financial assets at fair value through profit or loss	**184,821**	213,529
Loans and receivables:		
Loans and advances to customers	**652,599**	677,246
Loans and advances to banks	**37,398**	63,519
Debt securities	**38,142**	42,058
	728,139	782,823
Available-for-sale financial assets	**41,914**	76,141
Investment property	**4,587**	5,676

Value of in-force business	**5,696**	5,738
Goodwill and other intangible assets	**6,574**	7,230
Tangible fixed assets	**9,088**	8,672
Other assets	**21,926**	20,406
Total assets	**1,063,129**	1,127,725
Liabilities		
Deposits from banks	**112,909**	155,074
Customer deposits	**429,082**	409,162
Derivatives, trading and other financial liabilities at fair value through profit or loss	**68,807**	90,765
Debt securities in issue	**240,589**	249,665
Insurance liabilities	**69,648**	71,768
Liabilities arising from non-participating investment contracts	**42,921**	43,313
Other liabilities	**31,199**	27,664
Retirement benefit obligations	**1,982**	2,479
Subordinated liabilities	**30,966**	42,182
Total liabilities	**1,028,103**	1,092,072
Net assets	**35,026**	35,653

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE AND OUTLOOK

During the first half of 2009 the Group delivered a resilient trading performance against the backdrop of a marked slowdown in the UK economic environment, continued challenges in financial markets and the integration of HBOS plc following its acquisition on 16 January 2009. Statutory profit before tax in the first half of 2009 was £5,950 million, compared to £593 million in the first half of 2008, largely reflecting the impact of a £11,173 million credit to the income statement from the gain arising on the HBOS acquisition (negative goodwill) which more than offset the expected significant increase in impairments. Profit attributable to equity shareholders was £7,095 million and earnings per share totalled 41.9p.

To enable meaningful comparisons to be made with the first half of 2008, the income statement and balance sheet commentaries below are on a pro-forma basis (see 'basis of presentation'). Certain commentaries also exclude the unwind of fair value adjustments.

On a pro-forma basis, the Group reported a loss before tax in the first half of 2009 of £3,957 million compared to a profit before tax of £2,775 million in the first half of 2008. While the Group delivered a robust trading surplus, up 17 per cent to £6,221 million, profits were adversely impacted by significantly higher impairment losses which increased by £10,885 million to £13,399 million.

A resilient revenue performance

The Group has delivered a resilient revenue performance in the first half of 2009 offsetting significant short-term margin pressures, with overall income 7 per cent higher at £11,939 million, supported by a good performance in Wholesale, as a result of the absence of last year £1,572 million impact of market dislocation, a more favourable interest and currency rate environment, good transaction volumes in capital markets and strong flows of client driven derivative transactions at improved spreads, and £745 million gains on a number of balance sheet liability management transactions.

In Retail, lower levels of payment protection insurance income, reflecting the impact of last December's decision to move to a monthly premium product, and the impact of falling interest rates on deposit margins and higher overall funding costs from wholesale money markets have led to retail banking revenues being 14 per cent lower than in the first half of last year. Whilst lending markets have remained subdued throughout the industry, the Group has continued to maintain a strong estimated market share of net new mortgage lending. Unsecured lending balances were slightly lower, again reflecting lower customer demand. During the first half of the year, we have continued to build our current account and savings customer franchises in what remains a subdued market for customer deposits.

New business sales in our life assurance and pensions businesses were 25 per cent lower than in the first half of 2008, reflecting the extremely challenging market conditions which led to a general market-wide slowdown in the sale of life, pensions and investment products as customers have generally sought to avoid investment products with a significant equity component.

Over the last six months, total assets decreased by 6 per cent to £1,063 billion, with a 4 per cent decrease in loans and advances to customers as further customer lending growth was offset by the impact of non-relationship lending portfolios starting to be reduced. Customer deposits increased by 5 per cent to £429 billion over the last six months, supported by good growth in Retail. Corporate deposits were lower following a reduction in higher interest paying corporate deposits, however this reduction was offset by higher repo balances.

Group net interest income decreased by £600 million, or 9 per cent, to £6,442 million. The net interest margin from our banking businesses was 28 basis points lower at 1.72 per cent, as higher asset pricing was more than offset by the impact of lower deposit margins, reflecting the impact of falling base rates, and higher funding costs, which includes the impact of the Group extending its wholesale funding maturity profile. During the second half of 2009 we expect a significant slowdown in the rate of net interest margin reduction as the impact of lower base rates and higher funding costs eases. The net interest margin is expected to increase in 2010, although not returning to 2008 levels, with further improvements thereafter, reflecting the impact of expected base rate rises and greater stability in wholesale funding markets. Other income, net of insurance claims, increased by £1,359 million, or 33 per cent, to £5,497 million, largely reflecting lower investment write-downs.

Strong cost management delivering benefits

The Group has an excellent track record in managing its cost base, and has continued to deliver a strong cost performance. During the first half of 2009, operating expenses decreased by 3 per cent to £5,718 million, as integration related savings have started to be captured. Over the last six months, staff numbers have reduced by 2,619 to 118,207, as the Group has started to achieve the announced cost synergy savings.

We have already made significant progress in capturing savings from areas such as procurement and £107 million of cost synergy savings have already been realised in the first half of the year to support a target for 2009 of over £400 million, which will represent annual run-rate savings of approximately £700 million by the year end. The Group remains confident that it will meet its commitment to deliver cost synergies and other operating efficiencies of greater than £1.5 billion per annum by the end of 2011, and that it will continue to improve its cost:income ratio by in excess of 200 basis points per annum during the period, with further improvements of approximately 200 basis points per annum thereafter.

Impairment levels higher but expected to have peaked

Consistent with our announcement given earlier this year, during the first half of 2009 we have experienced a significant rise in impairment levels in the Group's lending portfolios. This largely represents falls in the value of commercial real estate, the impact of the further economic deterioration during the half, including the effects of rising unemployment, reduced corporate cash flows and the continuing impact of lower house prices.

In Retail, impairment losses increased by £821 million, or 60 per cent, to £2,192 million, particularly reflecting the impact of lower house prices on the mortgage impairment charge. In the context of the uncertain UK economic environment and the potential for increased consumer arrears and insolvencies, we are continuing to enhance our underwriting, collections and fraud prevention procedures. Approximately 40 per cent of the first half impairment charge related to assets which are expected to be included in the Government Asset Protection Scheme.

Compared to the first half of 2009, we expect to see a moderate increase in the Retail impairment charge in the second half of the year. The increase in the second half of 2009 largely reflects the expected impact of rising unemployment levels and further house price falls. The unsecured charge is expected to be broadly flat in 2010, and decrease thereafter as the UK economic environment improves. With an expectation of more stable house prices in 2010, we expect to see a reduction in the secured charge in 2010. Overall, we expect the retail impairment charge to be lower in 2010 than in 2009.

As previously disclosed, the Wholesale charge for impairment losses increased significantly by £8,663 million to £9,738 million, reflecting continuing declines in commercial property prices and reducing levels of corporate cash flows as we anticipate a continuation of the difficult economic environment. These factors are now leading us to anticipate further corporate defaults during the rest of the year. In particular, the real estate exposures in the legacy HBOS portfolios are more sensitive to a downturn in the economic environment. Approximately 80 per cent of the first half impairment charge related to assets expected to be included in the Government Asset Protection Scheme.

We believe the overall Wholesale impairment charge peaked in the first half of 2009 and expect a significant reduction in the Wholesale impairment charge in the second half of 2009 and a further reduction in 2010. We have spent significant time analysing and addressing the issues in the legacy HBOS portfolios, with the greatest attention paid to the over concentration in real estate and those portfolios that fall outside the Lloyds risk appetite. As a result of our portfolio review, which applied more conservative assumptions to real estate development expectations, and with the further deterioration in the economy translating into lower commercial property valuations, we took a prudent and significant impairment charge during the first half of 2009. The mix of the impairment charge is subsequently expected to change and we expect lower charges from real estate and real estate related businesses being partially offset by higher charges from corporate and commercial businesses, the latter being as a result of challenging economic conditions and corporate failures.

In our Wealth and International business the impairment charge rose by £1,401 million to £1,469 million, reflecting significant provisions against our Irish and Australian Commercial real estate portfolios. We expect a reduction in the charge in the second half of 2009 and the expected 2010 charge to be lower than that in 2009, although we continue to have ongoing concerns with regard to the outlook for the Irish economy. Approximately 85 per cent of the first half impairment charge related to assets expected to be included in the Government Asset Protection Scheme.

Overall, impairment losses increased by £10,885 million to £13,399 million. Our impairment charge on loans and advances to customers expressed as a percentage of average lending was 3.47 per cent, compared to 0.70 per cent in 2008. Impaired assets increased by 57 per cent to £49,019 million and now represent 7.2 per cent of total loans and advances to customers, up from 4.4 per cent at 31 December 2008. Approximately three quarters of the Group's first half impairment charge related to assets expected to be included in the Government Asset Protection Scheme.

At the Group level we believe the overall impairment charge has now peaked. Though we would normally expect that impairments would peak one to two years after the low point of a recession, given the significant Wholesale charge in the first half of the year, predominantly driven by the HBOS property and property related portfolios where losses have been incurred more quickly than expected, we believe, given our current economic outlook, that the charge in the second half of 2009 will be significantly lower than the charge in the first half of 2009. Thereafter, we expect the 2010 charge to be significantly lower than the 2009 charge.

Acquisition related balance sheet adjustments

Provisional fair value adjustments reflected in the calculation of the net assets acquired totalled £1,241 million (note 6, page 103). Negative adjustments in respect of tangible net assets totalled £2,035 million principally reflecting the write-down of HBOS's retail and corporate lending portfolios offset by gains on the valuation of HBOS's own debt. Intangible assets totalling £4,550 million have been recognised, largely reflecting the value of HBOS's relationship with its retail customer base and the value of its brands. Other acquisition related balance sheet adjustments include the elimination of HBOS's available-for-sale and cash flow hedging reserves which totalled £6,439 million.

As a result of these adjustments, the Group expects some £1.5 billion, net, to unwind positively through the Group's income statement over the medium to long term. During the first half of 2009, the Group's income statement reflected gains of £3.7 billion. In the second half of the year, we currently expect a further benefit of some £2 billion. Thereafter, over the medium term, smaller benefits are expected to accrue.

Gain on acquisition of HBOS

Following the acquisition of HBOS in January 2009, the Group has recognised a benefit of £11,173 million in respect of negative goodwill. This arises because the consideration paid to acquire HBOS was considerably less than the fair value of the net assets acquired, reflecting the unique circumstances surrounding the transaction.

Volatility

A large proportion of the investments held by the Group's insurance businesses is invested in assets which are expected to be held on a long-term basis and which are inherently subject to short-term investment market fluctuations. Whilst it is expected that those investments will provide enhanced returns over the longer term, the short-term impact of investment market volatility can be significant. In the first half of 2009, the fall in property and fixed interest investment values and the shortfall in equity market returns against our long term assumption has contributed to both insurance and policyholder adverse volatility totalling £591 million. The policyholder interest volatility has predominantly arisen in respect of policyholder tax.

Taxation

The Group's tax for the first half of 2009 was a credit of £1,203 million. This primarily reflects a tax credit relating to the Group's reported loss and a policyholder interests related tax credit offsetting in full the charge for policyholder interests included in the Group's profit before tax (page 104, note 7).

Robust capital ratios

At the end of June 2009, the Group's capital ratios, prior to the implementation of the Government Asset Protection Scheme, remained robust with a total capital ratio on a Basel II basis of 10.6 per cent, a tier 1 ratio of 8.6 per cent and a core tier 1 ratio of 6.3 per cent (page 60, note 9). In March 2009, the Group announced its intention to participate in the Government Asset Protection Scheme, which would substantially reduce its risk-weighted assets and very significantly strengthen the Group's capital position.

In June 2009, the Group successfully completed a £4 billion Placing and Compensatory Open Offer with the proceeds being used to redeem the £4 billion of preference shares held by HM Treasury. The redemption of the HMT preference shares has removed the annual cost of the preference share dividends of £480 million and will improve the Group's cash flow generation. Upon redemption of the preference shares, the block on payment of ordinary dividends was removed. However, it is not the Board's intention to pay a dividend on ordinary shares in respect of 2009.

In addition, during the first half of 2009, the Group has completed a number of balance sheet liability management transactions that have generated significant core tier 1 capital by redeeming certain securities at a discount to their balance sheet carrying value. A substantial number of note holders have accepted the various offers made and, as a result, the Group has obtained a pre-tax profit from these transactions of approximately £745 million.

Rightsizing the balance sheet

We have identified approximately £300 billion of assets associated with non-relationship lending and investments, including business which is outside our current risk appetite. It is our intention to manage these assets for value and, given the current economic climate, our primary focus will be on running these assets down over time. Over the next five years, we expect to achieve a reduction in such assets of approximately £200 billion (customer lending c. £140 billion; treasury assets £60 billion; risk-weighted assets £100 billion) which equates to approximately 20 per cent of the Group's total balance sheet assets as at 30 June 2009.

Such a reduction over time will provide the Group with increased optionality and flexibility from the resultant releases in both funding and capital. It is our current view that up to half of the released funding and capital would be deployed in our core relationship businesses, principally in the UK. The remaining funding benefit will be absorbed within the Group's overall funding plan, which includes actions to increase retail and corporate deposits and together these actions will reduce the proportion of the Group's funding that is derived from wholesale markets. The impact of running down those portfolios is not expected to have a significant impact on the Group's income over the five year period.

A strong liquidity and funding position

The recent turbulence in global capital markets has been a severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment, and individual institutions have faced varying, but significant, degrees of stress. Throughout this period, the Group has maintained a strong liquidity position which is supported by our robust and stable customer deposit base. The Group also continues to benefit from its diversity of funding sources. The Group's wholesale funding base has proved to be resilient, supporting the Group's balance sheet with an increased level of longer term funding (greater than 1 year).

During the first half of 2009, the Group has extended the maturity profile of wholesale funding, including the issuance of securities under the Credit Guarantee Scheme, such that at 30 June 2009 47 per cent of wholesale funding has a maturity date greater than one year. The maturity extension achieved has further de-risked our already prudent funding profile. Over time, and as we see improvements in the capacity of wholesale funding markets, we expect to maintain the average maturity of the Group's wholesale borrowings with a maturity date greater than one year in excess of 40 per cent which we consider to be a suitable and sustainable proportion. In addition, increases in customer deposits and the reduction in assets set out above, mean that we expect to see a slow but steady improvement in the Group's loan to deposit ratio. The Group does not set a target for this ratio (which we believe does not reflect either the quality of lending or the term of deposits held) but would expect to see it return to legacy Lloyds TSB levels of approximately 140 per cent over the next few years.

Summary

The significant deterioration in the UK economic environment over the last six months has created an extremely challenging operating background against which to integrate two large banking organisations. As expected, against this backdrop, the significant increase in corporate impairments has led the Group to report a loss in the first half of the year, before the credit for negative goodwill arising on the acquisition of HBOS. The Group has a strong risk management culture and is well-placed to manage through the near term challenges and benefit from what we expect to be a slow but steady UK economic recovery from 2010 and beyond.

Our revenue performance has been resilient and whilst interest margins are experiencing short-term pressures we expect them to recover in the medium term. We have an excellent track record in cost management, with a unique opportunity to capture significant acquisition related synergies over the next few years. On impairments, we believe the Group's overall impairment charge has now peaked, with a significant reduction expected in the impairment charge in the second half of 2009. We have a robust capital and funding position and expect this to improve significantly as a result of our intended participation in the Government Asset Protection Scheme. Overall therefore we expect the second half of the year to be tough but manageable, with strong medium-term earnings upside.

Tim Tookey

Group Finance Director

PRO-FORMA SEGMENTAL ANALYSIS

	Retail	Wholesale	Insurance	Wealth and Int'l	Group Operations and Central Items	Group
Half-year to 30 June 2009	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**3,735**	**2,495**	**(158)**	**597**	**(227)**	**6,442**
Other income	**894**	**2,154**	**1,479**	**554**	**710**	**5,791**
Total income	**4,629**	**4,649**	**1,321**	**1,151**	**483**	**12,233**
Insurance claims	**-**	**-**	**(294)**	**-**	**-**	**(294)**
Total income, net of insurance claims	**4,629**	**4,649**	**1,027**	**1,151**	**483**	**11,939**
Operating expenses	**(2,356)**	**(1,951)**	**(496)**	**(769)**	**(146)**	**(5,718)**
Trading surplus	**2,273**	**2,698**	**531**	**382**	**337**	**6,221**
Impairment	**(2,192)**	**(9,738)**	**-**	**(1,469)**	**-**	**(13,399)**
Share of results of joint ventures and associates	**(8)**	**(485)**	**(8)**	**(11)**	**5**	**(507)**
Profit (loss) before tax and fair value unwind	**73**	**(7,525)**	**523**	**(1,098)**	**342**	**(7,685)**
Fair value unwind [3]	**287**	**4,317**	**(126)**	**756**	**(1,506)**	**3,728**
Profit (loss) before tax	**360**	**(3,208)**	**397**	**(342)**	**(1,164)**	**(3,957)**
Banking net interest margin[1]	**1.86%**	**1.52%**		**1.82%**		**1.72%**
Cost:income ratio	**50.9%**	**42.0%**	**48.3%**	**66.8%**		**47.9%**
Impairment as a % of average advances[2]	**1.15%**	**6.87%**		**4.55%**		**3.47%**

(1) The calculation basis for banking net interest margins is set out in note 2 on page 50.

(2) 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. Calculated on an annualised basis.

(3) Fair value unwind represents the impact upon the consolidated and divisional income statements of the acquisition related balance sheet adjustments. These adjustments principally reflect the application of market based credit spreads to HBOS's lending portfolios and own debt. The net fair value unwind in the first half of 2009 is mainly attributable to a reduction in the impairment charge of £4,890 million, as losses reflected in the opening balance sheet valuation of the lending portfolios have been incurred, offset by a charge to net interest income of £1,496 million as the value of HBOS's own debt accretes to par.

PRO-FORMA SEGMENTAL ANALYSIS (continued)

	Retail	Wholesale	Insurance	Wealth and Int'l	Group Operations and Central Items	Group
Half-year to 30 June 2008	£m	£m	£m	£m	£m	£m
Net interest income	4,034	2,623	(190)	645	(70)	7,042
Other income	1,361	766	1,708	581	(41)	4,375
Total income	5,395	3,389	1,518	1,226	(111)	11,417
Insurance claims	-	-	(237)	-	-	(237)
Total income, net of insurance claims	5,395	3,389	1,281	1,226	(111)	11,180
Operating expenses	(2,284)	(2,244)	(577)	(731)	(35)	(5,871)
Trading surplus	3,111	1,145	704	495	(146)	5,309
Impairment	(1,371)	(1,075)	-	(68)	-	(2,514)
Share of results of joint ventures and associates	1	(33)	16	(6)	2	(20)
Profit (loss) before tax	1,741	37	720	421	(144)	2,775
Banking net interest margin	2.08%	1.89%		2.04%		2.00%
Cost:income ratio	42.3%	66.2%	45.0%	59.6%		52.5%
Impairment as a % of average advances	0.73%	0.75%		0.24%		0.70%

	Retail	Wholesale	Insurance	Wealth and Int'l	Group Operations and Central Items	Group
Half-year to 31 Dec 2008	£m	£m	£m	£m	£m	£m
Net interest income	4,420	3,129	(155)	669	(202)	7,861
Other income	1,378	(1,068)	1,785	610	(147)	2,558
Total income	5,798	2,061	1,630	1,279	(349)	10,419
Insurance claims	-	-	(244)	-	-	(244)
	5,798	2,061	1,386	1,279	(349)	10,175

Total income, net of insurance claims						
Operating expenses	(2,679)	(2,347)	(552)	(745)	(42)	(6,365)
Trading surplus	3,119	(286)	834	534	(391)	3,810
Impairment	(2,324)	(9,319)	-	(663)	(60)	(12,366)
Share of results of joint ventures and associates	6	(911)	(14)	(15)	2	(932)
Profit (loss) before tax	801	(10,516)	820	(144)	(449)	(9,488)
Banking net interest margin	2.21%	1.82%		2.08%		2.01%
Cost:income ratio	46.2%	113.9%	39.8%	58.2%		62.6%
Impairment as a % of average advances	1.21%	5.77%		2.13%		2.89%

DIVISIONAL PERFORMANCE

RETAIL

	Half-year to 30 June 2009 £m	Half-year to 30 June 2008 £m	***Change* %**	Half-year to 31 Dec 2008 £m
Net interest income	**3,735**	4,034	***(7)***	4,420
Other income	**894**	1,361	***(34)***	1,378
Total income	**4,629**	5,395	***(14)***	5,798
Operating expenses	**(2,356)**	(2,284)	***(3)***	(2,679)
Trading surplus	**2,273**	3,111	***(27)***	3,119
Impairment	**(2,192)**	(1,371)	***(60)***	(2,324)
Share of results of joint ventures and associates	**(8)**	1		6
Profit before tax and fair value unwind	**73**	1,741		801
Fair value unwind	**287**	-		-
Profit before tax	**360**	1,741		801
Banking net interest margin	**1.86%**	2.08%		2.21%
Impairment losses as a % of average advances	**1.15%**	0.73%		1.21%
Cost:income ratio	**50.9%**	42.3%		46.2%

	As at 30 June 2009 £bn	***Change* %**	As at 31 Dec 2008 £bn

Loans and advances to customers	**376.7**	**-**	377.1
Risk-weighted assets	**131.3**	***9***	120.7
Customer deposits	**218.5**	***1***	216.3

Key highlights

- **Resilient performance** against the backdrop of slowing economic activity.

- **Reduced total income,** driven by lower payment protection insurance income and a 22 basis point reduction in net interest margin. The margin decline reflects higher wholesale funding costs and lower deposit margins in the falling base rate environment, partly offset by higher asset pricing.

- **Strong cost management,** operating expenses increased by 3 per cent driven primarily by the Financial Services Compensation Scheme (FSCS) levy. Excluding this levy, operating expenses were down by 3 per cent.

- **Continuing good new lending quality,** reflecting continued strong credit criteria. The average loan-to-value on mortgage lending was 58 per cent, compared to 63 per cent for the full year. However, the economic environment and in particular the fall in house prices and higher unemployment has, as expected, resulted in an increased impairment charge, up by 60 per cent to £2,192 million.

- **Good progress on integrating the Lloyds TSB and HBOS retail businesses.** New management structures have been implemented and significant progress has been made in the consolidation and integration of back office processes.

RETAIL (continued)

Business overview

Retail is the largest retail bank in the UK and the leading provider of current accounts, savings, personal loans, credit cards and mortgages. With its strong stable of brands including Lloyds TSB, Halifax, Bank of Scotland and Cheltenham & Gloucester, it serves over 30 million customers through the largest branch and fee free ATM network in the UK.

Retail has approximately 22 million current account customers and provides social banking to over 4 million people through basic bank or social banking accounts. It is also the largest provider of personal loans in the UK, as well as being the UK's leading credit card issuer. Retail provides one in four residential mortgages making it the leading UK mortgage lender as well as being a major provider of home finance for the first time buyer.

Retail is the largest savings provider in the UK, with over 21 million savers. At 30 June 2009 the Group held over £180 billion of retail savings. It is also a major bancassurance provider, selling a wide range of long-term savings and investment products.

Strategic overview

Retail's strategic goal is to be recognised by its customers as the UK's best - and most recommended - bank. It will achieve this by building deep and enduring customer relationships which deliver the best value to customers. Underpinning this strategy are a strong stable of brands which provide unparalleled customer reach and choice; deep customer insight based on the strength of the customer franchise; and highly efficient and effective processes as a result of business scale. Lower cost processes, combined with real customer understanding, will enable further investment in the products and services that really matter to Retail customers and in Retail colleagues who deliver those products and services. At the same time, Retail will focus upon the close control of operating expenses and it will seek to improve capital management by continuing to apply a prudent approach to risk.

Progress against strategic initiatives

The immediate priority of the business during the first half has been to plan and successfully launch the integration process to combine the retail activities of Lloyds TSB and HBOS. Good progress has been made: a common management structure has been implemented across both legacy businesses, with duplicate structures and processes being identified and removed. There has also been significant progress made in the consolidation and integration of back office processes, including, for example, the consolidation of mortgage support activities and the development of a shared service structure for mortgage sales teams.

A key goal of Retail is to build deeper and enduring relationships with customers. In these difficult economic circumstances customers are increasingly looking towards their banks to provide innovative products which will help them manage their money even better. Retail has continued to maintain momentum in its key businesses. It has launched new and innovative products, meeting key customers needs, such as the new Reward current account as well as new savings and mortgage products. This has been supported by new selling initiatives in the distribution channels.

RETAIL (continued)

Financial performance

Profit before tax and fair value unwind decreased by £1,668 million to £73 million. This reduction was mainly driven by a higher impairment charge and reduced income resulting from a lower net interest margin, largely reflecting margin pressure in savings, and the introduction of a new payment protection insurance product with monthly premiums.

Total income decreased by 14 per cent to £4,629 million. During the first half of 2009, Retail has incurred higher overall funding costs from the wholesale money markets. In addition, a lower base rate has resulted in a reduction in margins on deposit and savings products. These were partly offset by higher asset pricing. As a result, Retail's overall net interest margin decreased by 22 basis points to 1.86 per cent. As previously reported, on 1 January 2009 Retail introduced a monthly premium payment protection product and stopped selling single premium products. This new product offers customers the benefit of monthly payments whilst retaining the product's valuable benefits and has been well received by both customers and the market. This change has, however, had a significant short-term impact on income in 2009 when compared with 2008, as a result of the income now being recognised over the life of the loan rather than all being recognised in the first year.

Operating expenses increased by 3 per cent to £2,356 million including a charge of £130 million in respect of the FSCS levy (first half 2008:nil). In 2008, the full cost of this levy was accounted for during the second half of the year. Excluding this levy, operating expenses decreased by 3 per cent from the first half of 2008, which reflected Retail's continuing close management of expenses against a background of cost inflation.

Impairment losses on loans and advances increased by 60 per cent to £2,192 million, reflecting the effect of lower house prices on the secured impairment charge and rising unemployment. Annualised impairment losses, as a percentage of average advances, were 1.15 per cent compared to 0.73 per cent in the first half of 2008. The secured impairment charge increased by £334 million to £591 million, with the charge for unsecured lending increasing by £487 million to £1,601 million. The difficult market conditions have resulted in total impaired loans, as a percentage of closing advances to customers, increasing to 2.97 per cent compared to 2.62 per cent at 31 December 2008. Retail has continued to enhance underwriting, collections and fraud prevention procedures in this continued period of economic uncertainty. At the beginning of the year, the division has ceased all sub-prime and self certified mortgage approvals.

Recent lending vintages across all secured portfolios are showing signs of stabilisation as a result of actions which have been taken during the last 18 months. Arrears in all secured portfolios have stabilised, in part as a result of improved affordability in the current low interest rate environment. The average monthly number of new cases entering collections has fallen by 21 per cent from the levels seen in the second half of 2008. Repossessions are down 7 per cent over the same period.

Compared to the first half of 2009 and in the context of current economic expectations, a moderate use in the impairment charge is expected in the second half of the year. This should represent the peak for the Retail impairment charge and reflects expected hardening of arrears across the business and reductions in house prices.

RETAIL (continued)

Creating products and services that customers really value

Sales in Lloyds TSB were broadly in line with that achieved in the first half of 2008 despite the pressures on the market as a whole with lower mortgage sales being offset by a particularly strong performance in savings. Sales in the Halifax and Bank of Scotland network were 8 per cent down on the first half of 2008, with lower mortgage sales being partly offset by strong sales of the new Reward current account. Through the alignment of the telephone banking sales models, we have seen that sales that come from service calls strengthen significantly, rising by more than 200 per cent on the Halifax and Bank of Scotland businesses. In particular, current accounts now account for over 40 per cent of these sales, up from just 13 per cent in 2008.

The introduction of the new Reward current account by Halifax and the new Lloyds TSB monthly saver, with an interest rate of 5 per cent for 12 months, have been well received by customers. Another new and innovative product is the 'Lloyds TSB Lend a Hand' mortgage. This allows first time buyers access to interest rates usually available to those with a 25 per cent deposit by linking the product to funds in a savings account provided by family or friends. As well as providing a return for savers this product supports growth in the important first time buyers market. In addition, Halifax and Bank of Scotland have launched the new Visa contactless debit card.

Customer deposits, at £218 billion, grew by 1 per cent over the last six months in the face of a high level of term deposit maturities as products sold by Halifax and Bank of Scotland in the first half of 2008 matured. This reverses the trend of declining deposit balances seen during the second half of 2008. Retail has maintained its position as the number one provider of both savings and current accounts.

Retail has continued to make good progress in building its mortgage business in a contracting market, by focusing on those segments of the prime mortgage market where value can be created and launching innovative new products, whilst at the same time maintaining a prudent approach to risk. Gross new mortgage lending totalled £18.3 billion during the first half of 2009 and net new mortgage lending was £1 billion. Retail has maintained its commitment to the housing market, with more than 50 per cent of new lending in the first half of 2009 being for house purchase rather than for re-mortgage.

Improving productivity and continually improving customer service

Productivity in both branch networks has increased during the first half of 2009. The Lloyds TSB network has continued to realise the benefits of the investments made in 2008 in developing branch staff as well as increasing the number of branches opening on a Saturday. Productivity in the Halifax branch network has grown steadily with the introduction of the Lloyds TSB leads system to support more effective cross-selling of products. The sharing of best practice across our financial advisers has seen the number of monthly sales of protection products increase by over 200 per cent during the first half of 2009.

Following a period of strong growth in the use of internet banking, a significant percentage of Retail's customer enquiries and transactions now occur online. There are 6.5 million active users of Retail internet services (14 per cent higher than in 2008) logging on 51 million times a month, making 6.5 million account transfers online and 5.7 million online payments to third parties (21 per cent growth). In addition, customers are making increasing use of electronic statements, with 5.1 million accounts now having statements delivered electronically rather than in paper format. Retail continues to lead the market in the provision of mobile banking services which assists customers in monitoring their bank accounts by providing access through their mobile phone.

WHOLESALE

	Half-year to 30 June 2009	Half-year to 30 June 2008	***Change***	Half-year to 31 Dec 2008
	£m	£m	***%***	£m
Net interest income	**2,495**	2,623	***(5)***	3,129
Other income	**2,154**	766		(1,068)
Total income	**4,649**	3,389	***37***	2,061
Operating expenses	**(1,951)**	(2,244)	***13***	(2,347)
Trading surplus	**2,698**	1,145	***136***	(286)
Impairment	**(9,738)**	(1,075)		(9,319)
Share of results of joint ventures and associates	**(485)**	(33)		(911)
Profit (loss) before tax and fair value unwind	**(7,525)**	37		(10,516)
Fair value unwind	**4,317**	-		-
Profit (loss) before tax	**(3,208)**	37		(10,516)
Corporate Markets	**(7,735)**	(259)		(10,250)
Treasury and Trading	**460**	254		19

Asset Finance	**(250)**	42	(285)
Profit (loss) before tax and fair value unwind	**(7,525)**	37	(10,516)
Banking net interest margin	**1.52%**	1.89%	1.82%
Cost:income ratio	**42.0%**	66.2%	113.9%
Impairment losses as a % of average advances	**6.87%**	0.75%	5.77%

	As at 30 June 2009	*Change*	Half-year to 31 Dec 2008
	£bn	*%*	£bn
Loans and advances to customers	**216.4**	*(8)*	234.6
Risk-weighted assets	**287.9**	*(8)*	313.2
Customer deposits[1]	**180.9**	*15*	157.9

(1) Of which repos represent £58.9 billion (2008:£18.1 billion)

Key highlights

- **Profit before tax has decreased significantly** primarily due to increased levels of impairment.
- **Income has increased by 37 per cent** principally as a result of the lower impact of market dislocation and continued strength in sales and trading activity.
- **Net interest margins reduced** reflecting the impact of higher funding costs, which more than offset higher asset pricing**.**
- **Impairment losses have increased sharply to £9,738 million,** compared to £1,075 million in the first half of 2008. The continued weak economic climate has resulted in significant increases in impairment losses primarily in commercial real estate related businesses.
- **Continued effective cost management.** Excluding the cost of settlement of certain historic US dollar payments practices in 2008, operating expenses fell by 6 per cent reflecting reduced levels of operating lease business and continued focus on strong cost management.

- **Good franchise growth** with a 40 per cent combined increase in cross selling income as a result of recent investment in customer facing teams.

WHOLESALE (continued)

Business overview

The Wholesale division operates a multi brand strategy, serving thousands of customers, ranging from start ups and small enterprises to global corporations. The enlarged division, following the acquisition of HBOS, comprises Corporate Markets, Treasury and Trading, and Asset Finance.

Corporate Markets comprises Corporate, Commercial, Commercial Real Estate, Specialist Finance and Wholesale Markets. Corporate, Commercial and Commercial Real Estate provide relationship based financial and advisory services to corporate customers throughout the UK, US and Canada. Transactions with customers with an annual turnover greater than £15 million are managed within Corporate and commercial property based transactions (including hotel and property based leisure) are managed within the Commercial Real Estate business. Commercial specialises in financial services to customers ranging from new business start-ups to those with a turnover up to £15 million, an element of which is property related. Specialist Finance includes the European private equity businesses where all new business is being written under the brand of Lloyds Development Capital, together with the leverage finance business. Wholesale Markets provides risk management solutions, specialised lending, capital markets' advisory and multi product financing solutions to the corporate customer franchise, whilst managing the banks own portfolio of structured credit investments and treasury assets.

Treasury and Trading manages the global trading, funding and liquidity risks and provides risk management solutions to both internal and external clients.

Asset Finance consists of a number of leasing and speciality lending businesses including Contract Hire (Lex and Autolease), Specialist Assets and Consumer Finance (Motor Finance and Personal Finance).

Strategic overview

Wholesale's strategic vision is to be recognised as the UK's leading, 'through the cycle', wholesale bank. In delivering this, it will direct its effort and expertise at deepening core customer relationships thereby becoming a provider of a broad range of banking and capital markets products and services anchored in a relationship through which we develop deep insight into client needs, support them through the economic cycle and thereby provide exceptional overall value for money.

Progress against strategic initiatives

Progress made against these strategic initiatives covers two areas; realigning our business and providing support to UK businesses:

Realigning our business - In the Commercial business, the integrated relationship network will operate under the Lloyds TSB Commercial brand in England and Wales and Bank of Scotland Commercial in Scotland. The Asset

Finance business consolidation and realignment continues. Black Horse has become the sole brand for point-of-sale Motor Dealer Finance and new business through the Bank of Scotland Dealer, Marine Finance, Vendor & Intermediary and Specialist Asset Finance businesses will cease. Six Black Horse Collections centres have been consolidated into the existing centres in Edinburgh and Cardiff and 28 Personal Finance branches across the Black Horse network were recently closed but the number of people in the Personal Finance central sales channel has been increased to better align distribution to customer demand. Plans are well advanced to bring together the market leading Lex and Autolease contract hire businesses.

WHOLESALE (continued)

Supporting UK business - The present economic situation is challenging for UK businesses and the Group fully embraces its role in supporting the recovery of the UK economy. The strategy is to support businesses 'through the cycle' by delivering on a comprehensive support programme increase the number of dedicated managers to give intensive support to businesses and provide practical advice to businesses on how to cope with a downturn, through a series of workshops across the UK.

As part of Wholesale's commitment to providing support for commercial business customers, Business Support Units provide dedicated teams across our Corporate, Commercial Real Estate and Specialist Finance business areas. Business Support Units will undergo further expansion during the remainder of 2009 with plans to increase the current headcount from around 500 at present to just over 1,000, maximising the opportunity to work with customers during these tough economic times. Business Support Units offer solutions including providing customers with finance to maintain cash flow, management advice on how to improve business performance and capital restructuring. By focusing on effective customer turnaround, there is the opportunity to deepen relationships and retain loyal customers.

Financial performance

Profit before tax and fair value unwind in Wholesale decreased by £7,562 million to a loss of £7,525 million, primarily reflecting the continued deterioration in economic environment and its impact on the levels of impairment.

Total income increased by 37 per cent to £4,649 million driven by a strong increase in other income. This increase was driven by strong performances in Wholesale Markets and Treasury and Trading, as a result of the impact of market dislocation, a more favourable interest rate environment, good transaction volumes in capital markets and strong flows of client driven derivative transactions at improved spreads.

Operating expenses reduced by 13 per cent to £1,951 million. Excluding the cost of settlement of certain historic US dollar payments practices in 2008, expenses fell by 6 per cent primarily as a result of continued focused cost control and reduced levels of operating lease business in asset finance.

Impairments increased sharply to £9,738 million compared to £1,075 million in the first half of 2008 as a result of higher levels of corporate distress, notably in commercial real estate related portfolios and elements of the HBOS US Corporate portfolio. Annualised impairment losses as a percentage of average advances were 6.87 per cent compared to 0.75 per cent in the first half of 2008.

The share of losses from joint ventures and associates increased by £452 million to a loss of £485 million as a result of deterioration in the economic climate impacting UK property prices and the underlying businesses.

WHOLESALE (continued)

Corporate Markets

	Half-year	Half-year	***Change***	Half-year

	to 30 June	to 30 June		to 31 Dec
	2009	2008		2008
	£m	£m	*%*	£m
Net interest income	**2,005**	2,202	*(9)*	2,491
Other income	**1,206**	(177)		(1,603)
Total income	**3,211**	2,025	*59*	888
Operating expenses	**(1,129)**	(1,340)	*16*	(1,243)
Trading surplus (deficit)	**2,082**	685		(355)
Impairment	**(9,334)**	(911)		(8,985)
Share of results of joint ventures and associates	**(483)**	(33)		(910)
Profit (loss) before tax and fair value unwind	**(7,735)**	(259)		(10,250)
Impairment losses as a % of advances	**7.05%**	0.75%		6.55%
Cost:income ratio	**35.2%**	66.2%		140.0%

	As at		As at
	30 June		31 Dec
Key balance sheet items	**2009**	***Change***	2008
	£bn	*%*	£bn
Loans and advances to customers	**197.8**	*(9)*	216.4
Customer deposits	**95.9**	*(1)*	96.6

Loss before tax increased by £7,476 million to a loss of £7,735 million, reflecting the significant increase in corporate impairments as a result of the deteriorating economic environment.

Income increased by £1,186 million to £3,211 million as a result of significantly reduced impact from the market dislocation, together with strong performances in the Sales and Capital Markets desks, and securitised income. Notwithstanding this, income in Specialised Finance was lower due to the impact of downward revaluations of investments. Operating expenses decreased by 16 per cent to £1,129 million. Excluding the cost of settlement of certain historic US dollar payments practices in 2008, operating expenses reduced by 3 per cent reflecting continued focused cost control.

Impairments increased by £8,423 million to £9,334 million, reflecting increased levels of impairments across all areas of Corporate Markets, notably in the commercial real estate related portfolios and the HBOS corporate US portfolios.

WHOLESALE (continued)

Treasury and Trading

	Half-year	Half-year	***Change***	Half-year

	to 30 June	to 30 June		to 31 Dec
	2009	2008		2008
	£m	£m	%	£m
Net interest income	**319**	262	***22***	484
Other income	**229**	75	***205***	(268)
Total income	**548**	337	***63***	216
Operating expenses	**(88)**	(83)	***(6)***	(105)
Trading surplus	**460**	254	***81***	111
Impairment	**-**	-		(92)
Profit (loss) before tax and fair value unwind	**460**	254	***81***	19
Cost:income ratio	**16.1%**	24.6%		48.6%

	As at		As at
	30 June		31 Dec
Key balance sheet items	**2009**	***Change***	2008
	£bn	*%*	£bn
Loans and advances to customers	**6.5**	***35***	4.8
Customer deposits	**85.0**	***39***	61.3

Profit before tax increased by 81 per cent to £460 million. Income benefited from strong customer demand for interest rate and foreign exchange products and significant internal and external demand for Treasury's pricing and risk management service. Treasury and Trading has worked closely with colleagues across the bank to deliver added value income through supporting the bank's customer proposition. Operating expenses increased by 6 per cent to £88 million reflecting a controlled investment in front and back office functions to support the larger business. The impairment charge of £92 million in the second half of 2008 reflected the impact of a number of high profile financial services company collapses in this period.

WHOLESALE (continued)

Asset Finance

	Half-year	Half-year		Half-year
	to 30 June	to 30 June		to 31 Dec
	2009	2008	***Change***	2008
	£m	£m	*%*	£m
Net interest income	**171**	159	***8***	154
Other income	**719**	868	***(17)***	803

Total income	**890**	1,027	***(13)***	957
Operating expenses	**(734)**	(821)	***11***	(999)
Trading surplus	**156**	206	***(24)***	(42)
Impairment	**(404)**	(164)	***(146)***	(242)
Share of results of joint ventures and associates	**(2)**	-		(1)
Profit (loss) before tax and fair value unwind	**(250)**	42		(285)
Impairment losses as a % of advances	**5.96%**	2.08%		3.01%
Cost:income ratio	**82.5%**	79.9%		104.4%

	As at		As at
	30 June		31 Dec
Key balance sheet item	**2009**	***Change***	2008
	£bn	***%***	£bn
Loans and advances to customers	**12.1**	***(10)***	13.4

Profit before tax decreased by £292 million to a loss before tax of £250 million, primarily reflecting higher impairment charges from the continued deterioration in the economic environment.

Income decreased by 13 per cent to £890 million despite continued margin improvement across the businesses. Insurance income decreased in the Personal Finance business due to the move to a monthly premium product and adverse business volumes across all businesses. Operating expenses decreased by 11 per cent to £734 million, largely reflecting the impact of lower business volumes reducing depreciation charges on assets held under operating lease. The impairment charge increased by 146 per cent to £404 million, reflecting increases in both the retail and non-retail consumer finance business. In retail Consumer Finance, impairment increases reflected both the increase in the number of customers going into arrears and the negative impact of house price deflation on the expected recovery rates on the defaulted second lien portfolio. The Consumer Finance business has also seen a significant increase in the number of corporate failures within its non-retail books which have caused a significant increase in the impairment charge.

INSURANCE

	Half-year to 30 June 2009	Half-year to 30 June 2008	***Change***	Half-year to 31 Dec 2008
	£m	£m	***%***	£m
Net interest income	**(158)**	(190)	***17***	(155)
Other income	**1,479**	1,708	***(13)***	1,785
Total income	**1,321**	1,518	***(13)***	1,630
Insurance claims	**(294)**	(237)	***(24)***	(244)

Total income, net of insurance claims		**1,027**	1,281	***(20)***	1,386
Operating expenses		**(496)**	(577)	***14***	(552)
Share of results of joint ventures and associates		**(8)**	16		(14)
Profit before tax and fair value unwind		**523**	720	***(27)***	820
Fair value unwind		**(126)**	-		-
Profit before tax		**397**	720	***(45)***	820
Profit before tax by business unit					
Life, pensions and investments	- UK business	**328**	410	***(20)***	416
	- European business	**16**	33	***(52)***	116
General Insurance		**186**	248	***(25)***	289
Other[1]		**(7)**	29		(1)
Profit before tax and fair value unwind		**523**	720	***(27)***	820
EEV new business margin		**2.4%**	2.9%		3.3%

European Embedded Value information is provided on page 119.

(1) Includes certain divisional costs and income as well as the division's interest in the joint ventures.

Key highlights

- **Profit performance reflects extremely challenging market conditions.** Profit before tax and fair value unwind decreased by 27 per cent to £523 million.

- **Sales and income performance reflects the market-wide slowdown** in life, pension and investment sales across both the UK and Europe. Sales of corporate pensions and protection products have performed well but this has been more than offset by poor performance of equity based investment products and individual pensions.

- **New business margin for life, pension and investment sales at 2.4 per cent reflects a stable performance** by Scottish Widows (3.4 per cent) offset by a reduced Clerical Medical/Halifax Life margin (1.5 per cent) resulting mainly from accounting alignment. Integration of these businesses is expected to see the margin progress towards Scottish Widows performance.

- **General Insurance profits have been impacted by the worsening economic environment through higher creditor claims and lower investment returns.**

- **Continued focus on cost management.** Operating expenses have decreased by 14 per cent.

- **Significant progress on Integration** of our legacy businesses with a new integrated life, pensions and investments proposition and sales teams for the IFA channel launched on 1 July 2009. We have also made a strong start in creating a combined General Insurance business. In the six months to June 2009 we have secured 48 per cent of our planned 2009 integration savings across the division.

INSURANCE (continued)

Business overview

The Insurance Division consists of three core elements: life, pensions and investment business written within the UK; life, pensions and investment business written in mainland Europe; and general insurance business.

The UK life, pensions and investments business includes Scottish Widows which, for a number of years, has been a subsidiary of the Lloyds TSB Group and the provider of long term savings and investment products distributed through intermediated, bancassurance and direct channels. Following the acquisition of HBOS, the business unit also includes business written through the intermediary and bancassurance channels under the Clerical Medical and Halifax brands respectively. Lloyds Banking Group is now the major bancassurance provider in the UK and has one of the largest intermediary sales forces in the industry.

The European life, pensions and investments business distributes products primarily in the German market under the Clerical Medical and Heidelberger Leben brands. The business unit was included within the International Division of the former HBOS group.

The combined general insurance business is a leading distributor of home and creditor insurance in the UK, with products distributed through the branch network, direct channels and strategic corporate partners.

Strategic overview

The strategic priorities for the Insurance division are to: complete the integration of our market leading businesses, grow sales profitably in our targeted markets, enhance the capital and operational efficiency of existing and future business and leverage Lloyds Banking Group strengths in distribution and asset management.

Within the life, pensions and investments operations, these priorities will be achieved by establishing a competitive advantage through developing strong and enduring relationships, developing market-led propositions and being easy to do business with.

The General Insurance operation is targeting growing share in its chosen customer segments, delivering service in PPI, and improving margins, service and efficiency.

INSURANCE (continued)

Integration

Life, pensions and investments - UK business

The integration of the life, pensions and investments businesses is already progressing well with particular recent success in the following key areas:

The intermediary sales forces of Scottish Widows and Clerical Medical combined under the Scottish Widows brand on 1 July 2009 and work is well progressed in developing an integrated bancassurance proposition planned to be launched in 2010. The combined business will seek to build on the strengths inherent in each of the heritages, including Scottish Widows' strong position in the pensions and protection market and Clerical Medical's expertise in the savings and investments market. Additionally the revised product suites are being designed using the financial return and capital disciplines previously employed at Scottish Widows. It is therefore anticipated that significant shareholder value can be created through improving the profitability and capital efficiency of products across the scale present in our wider customer base.

The integration provides an opportunity to enhance the customer proposition across the combined businesses, and to deliver further efficiencies through streamlining processes and removing duplication. This includes a continued focus on the proportion of bancassurance sales which require limited manual intervention, thereby building a competitive advantage in this area. Additionally in the first half of 2009, the difficult decision has been taken to close the offices located in Clevedon and relocate colleagues to the Bristol offices as part of the Group's integration efficiency programme.

Significant work has been undertaken to assess the optimum capital structure for the new combined division and planning is well progressed. In addition capital disciplines will be reviewed across the life companies of the combined division to ensure best practice is applied, building on the improvements already delivered in the first half of 2009 where the amount of capital used in writing new business has decreased as a proportion of sales volumes. The capital management strategy focus is on generating sufficient free cash flow to fund new business and dividends.

Despite the current difficult economic climate which has impacted the financial results in the short-term, the life, pensions and investment business is well placed to maximise its potential as consumer confidence returns.

Creating one General Insurance business

A strong start has been made to creating one General Insurance business, with 2009 synergy benefits in line with target. Key achievements include the introduction of a single reinsurance broker, delivering a combined re-insurance programme providing for higher levels of cover at lower cost, appointment of the senior leadership team to further embed a single business culture and drive business progression and development of a combined retention team focused on securing the best price for the customer utilising both Halifax and Lloyds TSB branded products.

Clear plans are in place to further integrate the two businesses onto the Lloyds TSB Insurance operating model and major IT platforms which includes the delivery of a combined sales operating platform for all brands. Furthermore this will see ongoing investment in our claims management operation, bringing together the best processes and people to ensure the greatest possible services to our customers, helping to get their lives back on track when the worst happens.

INSURANCE (continued)

Life, pensions and investments

UK business

	Half-year	Half-year	***Change***	Half-year

		to 30 June 2009 £m	to 30 June 2008 £m	%	to 31 Dec 2008 £m
Net interest income		**(146)**	(145)	***(1)***	(137)
Other income		**772**	883	***(13)***	875
Total income		**626**	738	***(15)***	738
Operating expenses		**(298)**	(328)	***9***	(322)
Profit before tax and fair value unwind		**328**	410	***(20)***	416
Profit before tax analysis					
New business profit	- insurance business[1]	**175**	205	***(15)***	260
	- investment business[1]	**(96)**	(135)	***29***	(112)
Total new business profit		**79**	70	***13***	148
Existing business profit		**243**	305	***(20)***	229
Expected return on shareholders' net assets		**6**	35	***(83)***	39
Profit before tax and fair value unwind		**328**	410	***(20)***	416

(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.

Profit before tax, excluding fair value adjustments, decreased by £82 million, or 20 per cent, to £328 million.

New business profit on insurance business has decreased by 15 per cent to £175 million, primarily reflecting lower sales of individual pensions and life bond products as a result of current economic conditions. The new business loss on investment business has improved by 29 per cent to £96 million, reflecting early profit recognition from the introduction of a new OEIC product. Existing business profit has decreased by 20 per cent to £243 million reflecting lower asset values from adverse investment markets in 2008 and a lower assumed rate of return. The expected return on shareholders' net assets has decreased to £6 million for the same reasons.

Profit before tax in Scottish Widows increased by £20 million, or 7 per cent, to £287 million whereas profit before tax in the Clerical Medical and Halifax Life businesses decreased by £102 million, or 71 per cent, to £41 million. In addition to the adverse trading conditions noted above, the results of Scottish Widows reflect net positive experience variances in the first half of 2009 and the results of Clerical Medical and Halifax Life reflect the non-recurrence of one-off benefits in the first half of 2008.

INSURANCE (continued)

Whilst good progress has been made to integrate the UK life, pensions and investment businesses across the Division in the first half of 2009, there are a number of historic differences which inevitably will take longer to fully align. Further significant work will be required to align the businesses around the Scottish Widows operating model which in turn will better integrate the Clerical Medical and Halifax Life businesses into the Lloyds Banking Group and increase financial returns.

The key business priorities for the UK life, pensions and investments business are: to build on the successful legacy of our bancassurance business; to grow sales profitably through intermediaries; to maintain excellent service and operational efficiency; and to optimise our use of capital.

Maximising bancassurance success - in the first half of 2009, the value of bancassurance new business premiums decreased by 20 per cent. The primary reason for the reduction is the lack of consumer confidence in the investment markets which has adversely impacted sales of equity-backed OEICs and life bonds. The decrease also reflects the introduction of a regular premium creditor insurance product, an element of which is underwritten by Scottish Widows, which defers the recognition of premiums compared to the previous product. Those adverse impacts have been partly offset by a strong performance in other protection products which have increased by 13 per cent and strong sales of the capital protected fund OEIC product.

Intermediary sales - in the first half of 2009 sales through UK Independent Financial Advisers have reduced by 29 per cent. This is primarily driven by a reduction in Individual Pension volumes, reflecting current economic conditions, and a reduction in life bonds, reflecting a lack of consumer confidence in equity-backed products. Additionally, we had expected there to be an impact on sales whilst combining the Scottish Widows and Clerical Medical sales forces in the first half of 2009. However this is now complete and the combined business is well positioned for future growth.

Service and efficiency - in recent years Scottish Widows has received a number of industry awards for its quality customer service, and has consistently delivered cost efficiencies against a background of improving service levels and investment in products and distribution channels. Our servicing unit cost remains one of the lowest of our peer group, a position which is expected to further improve as integration synergy benefits are delivered. This year, despite additional internal and external demands, the company has maintained its high quality service levels and continued to win awards. Furthermore, service levels in the Halifax and Clerical Medical businesses remain strong and are consistently above target against key measures. Both heritages are now sharing best practice and are jointly planning for the second half of 2009 and into 2010.

Capital management - the capital positions of the life insurance companies within the Group remain robust despite recent market turbulence and, during the period, Scottish Widows and Clerical Medical have taken further steps to reduce their exposures to equity markets. Based on the FSA's definition of insurance groups and the current legal structure, Lloyds Banking Group has two reportable life, pensions and investment businesses within its insurance division. At the end of June the estimated Insurance Group Directive (IGD) Surplus was £0.8 billion for the Scottish Widows insurance group and £0.9 billion for the HBOS insurance group, with additional surplus in the long term funds of £1.5 billion and £0.3 billion respectively. Additionally the management of surplus capital has continued to be a key focus; during July Clerical Medical has redeemed £617 million of subordinated debt at a significant discount to redemption value. This transaction resulted in no material impact on the IGD capital surplus. During July 2009, Scottish Widows has paid a further dividend of £187 million to the Group.

INSURANCE (continued)

Life, pensions and investments - European business

Overall profit before tax decreased by 52 per cent to £16 million. Within this, new business profits have reduced by £4 million driven by lower sales, reflecting the current economic conditions. Existing business profits have decreased largely due to the reduction in risk discount rate as a result of moving toward more market consistent embedded value principles.

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 businesses, is given below:

			Half-year to 30 June 2009			Half-year to 30 June 2008		Half-year to 31 Dec 2008
	UK	**Europe**	**Total**	UK	Europe	Total	***Change***	Total
	£m	**£m**	**£m**	£m	£m	£m	*%*	£m
Protection	**264**	**16**	**280**	241	18	259	***8***	284
Creditor	**83**	**-**	**83**	357	-	357	***(77)***	322
Savings and investments	**1,465**	**113**	**1,578**	2,219	171	2,390	***(34)***	2,131
Individual pensions	**1,401**	**64**	**1,465**	2,426	151	2,577	***(43)***	1,945
Corporate and other pensions	**1,560**	**-**	**1,560**	1,444	-	1,444	***8***	1,496
Retirement Income	**570**	**-**	**570**	776	-	776	***(27)***	675
Managed fund business	**76**	**-**	**76**	132	-	132	***(42)***	84
Life and pensions	**5,419**	**193**	**5,612**	7,595	340	7,935	***(29)***	6,937
OEICs	**1,749**	**-**	**1,749**	1,924	-	1,924	***(9)***	1,379
Total	**7,168**	**193**	**7,361**	9,519	340	9,859	***(25)***	8,316
Analysis by channel								
Bancassurance								
ex creditor	**3,591**	**-**	**3,591**	4,258	-	4,258	***(16)***	3,419
Creditor	**83**	**-**	**83**	357	-	357	***(77)***	322
Bancassurance	**3,674**	**-**	**3,674**	4,615	-	4,615	***(20)***	3,741
Independent financial advisers	**3,313**	**193**	**3,506**	4,687	340	5,027	***(30)***	4,406
Direct	**181**	**-**	**181**	217	-	217	***(17)***	169
Total	**7,168**	**193**	**7,361**	9,519	340	9,859	***(25)***	8,316

INSURANCE (continued)

Movement in life, pensions and investments funds under management

The Insurance division's funds are predominantly managed by Scottish Widows Investment Partnership and Insight, which are part of the Wealth and International division.

	Half-year to 30 June 2009 £bn	Half-year to 30 June 2008 £bn	Half-year to 31 Dec 2008 £bn
Opening funds under management	**113.7**	135.6	125.3
UK business			
Premiums	**6.4**	8.9	8.2
Claims	**(3.1)**	(3.6)	(4.0)
Surrenders	**(3.4)**	(5.7)	(5.6)
Net inflow of business	**(0.1)**	(0.4)	(1.4)
Investment return, expenses and commission	**(1.9)**	((9.1)	(9.5)
Net movement	**(2.0)**	(9.5)	(10.9)
European business			
Net movement	**(0.3)**	(0.5)	(0.2)
Dividends and capital repatriation	**-**	(0.3)	(0.5)
Closing funds under management	**111.4**	125.3	113.7

INSURANCE (continued)

General Insurance	**Half-year to 30 June 2009**	Half-year to 30 June 2008	***Change***	Half-year to 31 Dec 2008
Home insurance	**£m**	£m	*%*	£m
Underwriting income (net of reinsurance)	**450**	433	***4***	452
Commission receivable	**23**	22	***5***	28

Commission payable	**(46)**	(32)	***(44)***	(38)
	427	423	***1***	442
Creditor Insurance				
Underwriting income (net of reinsurance)	**379**	452	***(16)***	408
Commission receivable	**29**	229	***(87)***	199
Commission payable	**(229)**	(493)	***54***	(430)
	179	188	***(5)***	177
Other				
Underwriting income (net of reinsurance)	**5**	12	***(58)***	8
Commission receivable	**47**	29	***62***	42
Commission payable	**(30)**	(10)	***(200)***	(26)
Investment income and other	**(10)**	40	***(125)***	52
	12	71	***(83)***	76
Net operating income	**618**	682	***(9)***	695
Claims paid on insurance contracts (net of reinsurance)	**(294)**	(237)	***(24)***	(243)
Operating income, net of claims	**324**	445	***(27)***	452
Operating expenses	**(138)**	(197)	***30***	(163)
Profit before tax and fair value unwind	**186**	248	***(25)***	289
Claims ratio	**32%**	25%		26%
Combined ratio	**72%**	79%		73%

Profit before tax from General Insurance fell by £62 million, to £186 million, reflecting lower investment returns, an increase in unemployment claims as a result of the worsening economic environment and the move to regular premium on loans PPI.

Net operating income decreased by £64 million, primarily reflecting declining investment income returns following lower interest rates. Home underwriting income increased by 4 per cent reflecting growth in renewal premiums despite the challenge of a very competitive market. This was offset by the front end commission strain resulting from strong new business sales. Creditor income decline reflects the market move to regular premiums for loan related PPI partially offset by lower profit share payable as a consequence of higher unemployment claims.

Claims are £57 million higher than 2008, principally driven by higher creditor unemployment claims. Underlying home claims ratio improved 6 per cent to 33 per cent, reflecting continued benefits from ongoing investment in claims processes, and a largely benign set of weather conditions over the six month period.

INSURANCE (continued)

Despite the market challenges General Insurance continues to make good progress against its key strategic initiatives placing it in a strong position when the economic environment improves.

Growing share in our chosen customer segments

Growth in home insurance sales continued with a strong underwriting performance in first half 2009. Volumes through the Lloyds TSB branch network increased by 17 per cent supported by a positive customer reaction to our 5 Star Defaqto Rated home insurance product and to our Home Emergency product. The launch of a new, more modular home insurance product in the Halifax and Bank of Scotland branch networks is designed to underpin sales performance in the second half of the year.

Product and service delivery in Payment Protection Insurance (PPI)

We continue to develop our PPI strategy to focus on propositions which meet the protection needs of our customers during these difficult economic circumstances. We have delivered regular premium products into our branch networks, including a 5 Star Defaqto Rated Lloyds TSB monthly premium loan protection product in January 2009. Additionally, the underwriting of Lloyds TSB Credit Card payment protection cover has been brought in-house to improve the customer experience and achieved a 5 Star Defaqto Rating.

PPI claims are up 82 per cent compared with 2008 and we expect a rising claims trend to continue into 2010. We have implemented a number of further enhancements, including increased resourcing levels, to ensure that valid claims are paid quickly and that good quality service continues to be delivered to customers in financial distress.

Improving margins through better customer, process and supplier management

Following on from improvements in 2008, the ongoing review of our advertising expenditure and the introduction of further improvements to the targeting of promotional activity have led to further efficiencies and the cost per product sale reducing by 5 per cent.

Adjusting for the re-classification of Claims Handling Expenses into the claims line and the additional marketing spend in the Motor business in 2008, costs remain stable year on year. Despite the steep rise in costs associated with servicing PPI claims, through strong cost control we have achieved a level of costs comparable with the prior year.

Joint ventures and associates

The £24 million reduction in profit on the first half of 2008 principally reflects the increased cost of personal injury claims and the impact of weather related motor claims in the early part of the year.

WEALTH AND INTERNATIONAL

	Half-year to 30 June 2009 £m	Half-year to 30 June 2008 £m	***Change*** *%*	Half-year to 31 Dec 2008 £m
Net interest income	**597**	645	*(7)*	669
Other income	**554**	581	*(5)*	610
Total Income	**1,151**	1,226	*(6)*	1,279
Operating expenses	**(769)**	(731)	*(5)*	(745)
Trading surplus	**382**	495	*(23)*	534
Impairment	**(1,469)**	(68)		(663)
Share of results of joint ventures and associates	**(11)**	(6)		(15)
Profit before tax and fair value unwind	**(1,098)**	421		(144)
Fair value unwind	**756**	-		-
Profit before tax	**(342)**	421		(144)

Wealth	**101**	216		153
International	**(1,199)**	205		(297)
Profit before tax and fair value unwind	**(1,098)**	421		(144)
Banking net interest margin	**1.82%**	2.04%		2.08%
Impairment losses as a % of average advances	**4.55%**	0.24%		2.13%
Cost:income ratio	**66.8%**	59.6%		58.2%

	As at		As at
	30 June		31 Dec
	2009	***Change***	2008
	£bn	***%***	£bn
Loans and advances to customers	**58.6**	***(9)***	64.6
Risk-weighted assets	**57.9**	***(6)***	61.3
Customer deposits	**29.7**	***(13)***	34.1

Key highlights

- **The significant loss before tax** was primarily due to increased impairment losses driven by the economic downturn in Ireland and Australia.

- **Reduced income** reflects low base rates which have reduced underlying deposit margins and the increased cost of wholesale funding, whilst other income has been affected by global stock markets resulting in a 6 per cent fall in income.

- **Effective cost management -** excluding the impact of foreign exchange movements and additional costs associated with transitional services in our Australian business, underlying costs have been held flat and our focus is on driving through efficiency gains from effective integration whilst also redeploying investment into higher growth areas.

WEALTH AND INTERNATIONAL (continued)

Business overview

Wealth and International is a new division formed in 2009 to give increased focus and momentum to the private banking and asset management businesses and to closely co-ordinate the management of our international businesses.

The Wealth business comprises private banking, wealth and asset management business in the UK and overseas. The key operations are UK and International Private Banking, which operate under the Lloyds TSB and Bank of Scotland brands, the Channel Islands and Isle of Man offshore businesses, the expatriates business and the two asset management businesses, Insight Investment and Scottish Widows Investment Partnership. In addition the Group holds a 60 per cent stake in St James's Place plc and a 55 per cent stake in Invista Real Estate, respectively the UK's largest independent listed wealth manager and real estate fund management group.

The International business comprises other international banking businesses outside of the UK, with the exception of corporate business in North America which is transacted through Wholesale division. These largely comprise corporate, commercial and asset finance businesses in Australia, Ireland and Continental Europe.

Strategic overview

Wealth represents a key growth opportunity for the Group and, through deepening the relationships with existing Group clients alongside targeted external customer acquisition, our goal is to be recognised as the trusted adviser to expatriate and private banking clients both in the UK and selected international markets. Our initial focus in the UK will be to increase the penetration of our wealth offering into the Group's existing customer base by demonstrating that we can add real value. Outside the UK we will be building on the strengths of our brand portfolio and existing expatriate, offshore and international private banking propositions.

Wealth also represents an opportunity to diversify income growth to less capital intensive businesses whilst contributing customer deposits to improve the Group's funding profile.

In the International businesses, our priority is to maximise value in the short to medium-term. Our immediate focus is close management of the lending portfolio, adopting the Group's risk management policies and procedures and repricing assets where appropriate. At the same time we will be delivering operational efficiencies and reshaping the business models to reflect the ongoing environment.

Progress against strategic initiatives

In Wealth, the focus is on driving additional income growth from the Group's affluent and high net worth client base through more effective use of the opportunities afforded by the Retail and Wholesale franchises to deepen relationships with these customers. The total number of Private Banking clients at 30 June 2009 was approximately 300,000 and net new fund flows in the half were £6 billion.

We are making good progress with the integration of our existing Wealth operations, including our private banking and also our asset management businesses, Scottish Widows Investment Partnership and Insight, which together represent the UK's largest active asset manager.

In International, the focus is on managing the impaired asset portfolio with redeployment of resource from line activity to manage arrears and collections. The business is responding to the challenging environment through strong margin management and repricing assets as opportunities arise.

WEALTH AND INTERNATIONAL (continued)

Wealth	**Half-year**	Half-year		Half-year
	to 30 June	to 30 June		to 31 Dec
	2009	2008	***Change***	2008
	£m	£m	***%***	£m

Net interest income	**198**	228	***(13)***	217
Other income	**490**	549	***(11)***	547
Total Income	**688**	777	***(11)***	764
Operating expenses	**(560)**	(552)	***(1)***	(578)
Trading surplus	**128**	225	***(43)***	186
Impairment	**(26)**	(5)		(18)
Share of results of joint ventures and associates	**(1)**	(4)		(15)
Profit before tax and fair value unwind	**101**	216	***(53)***	153
Cost:income ratio	**81.4%**	71.0%		75.7%

	As at 30 June 2009	Change	As at 31 Dec 2008
	£bn	***%***	£bn
Loans and advances to customers	**9.6**	***(8)***	10.4
Risk weighted assets	**10.9**	***(6)***	11.6
Customer deposits	**24.1**	***(10)***	26.7

Profit before tax in Wealth decreased by 53 per cent to £101 million primarily due to lower income.

Total income decreased by 11 per cent to £688 million. Net interest income was 13 per cent lower at £198 million reflecting margin compression driven by reducing base rates and higher wholesale funding costs, and a very competitive deposit market which led to an outflow in deposits of £2.6 billion. Other income decreased by 11 per cent to £490 million with the asset management businesses experiencing lower fund management fees, driven principally by falls in global stock markets.

Foreign exchange movements, principally the stronger Euro, have increased operating expenses by approximately 3 per cent. Excluding this impact, operating expenses were slightly lower than the first half of 2008 despite investment to increase distribution capacity in Private Banking to support future growth plans.

Impairment losses increased by £21 million to £26 million reflecting the deteriorating economic climate, particularly in our retail businesses in Spain.

WEALTH AND INTERNATIONAL (continued)

Funds under management	**As at 30 June 2009**	As at 30 June 2008	As at 31 Dec 2008
	£bn	£bn	£bn

SWIP and Insight:			
Internal	**92.0**	104.5	95.0
External	**113.0**	96.9	107.2
	205.0	201.4	202.2
Other Wealth:			
St James's Place	**16.9**	17.2	16.3
Invista	**5.4**	8.0	6.3
Other (inc. Private Banking)	**16.7**	19.4	20.1
Closing funds under management	**244.0**	246.0	244.9

	Half-year to 30 June 2009 £bn	Half-year to 30 June 2008 £bn	Half-year to 31 Dec 2008 £bn
Opening funds under management	**244.9**	253.0	246.0
Inflows:			
SWIP and Insight - internal	**4.1**	4.3	4.1
- external	**17.7**	15.4	15.9
Other	**2.0**	2.8	2.7
	23.8	22.5	22.7
Outflows:			
SWIP and Insight - internal	**(3.7)**	(5.3)	(6.6)
- external	**(12.8)**	(6.9)	(9.0)
Other	**(2.3)**	(1.6)	(1.6)
	(18.8)	(13.8)	(17.2)
Investment return, expenses and commission	**(5.9)**	(15.7)	(6.6)
Closing funds under management	**244.0**	246.0	244.9

Overall funds under management are in line with December 2008 with strong inflows offsetting the impact of lower equity and property values.

WEALTH AND INTERNATIONAL (continued)

International	**Half-year to 30 June 2009 £m**	Half-year to 30 June 2008 £m	***Change %***	Half-year to 31 Dec 2008 £m
Net interest income	**399**	417	***(4)***	452
Other income	**64**	32	***100***	63
Total Income	**463**	449	***3***	515

Operating expenses	**(209)**	(179)	***(17)***	(167)
Trading surplus	**254**	270	***(6)***	348
Impairment	**(1,443)**	(63)		(645)
Share of results of joint ventures and associates	**(10)**	(2)		-
Profit (loss) before tax and fair value unwind	**(1,199)**	205		(297)
Cost:income ratio	**45.1%**	39.9%		32.4%

	As at 30 June 2009	Change	As at 31 Dec 2008
	£bn	*%*	£bn
Loans and advances to customers	**49.0**	***(10)***	54.2
Risk weighted assets	**47.0**	***(5)***	49.7
Customer deposits	**5.6**	***(24)***	7.4

Profit before tax in International decreased by £1,404 million to a loss before tax of £1,199 million, reflecting the significant deterioration in the credit risk environment, particularly in relation to commercial real estate lending in both Ireland and Australia.

Total income increased by 3 per cent to £463 million. Net interest income decreased by 4 per cent to £399 million reflecting higher wholesale funding costs, the strain of increasing impaired assets and a very competitive deposit market, partly offset by improved customer lending margins. Other income increased by £32 million to £64 million largely due to favourable foreign exchange movements.

Operating expenses increased by 17 per cent to £209 million primarily reflecting foreign exchange movements which contributed just over half of the increase, with the balance driven by additional costs associated with the transitional services following the disposal by HBOS of BankWest and St. Andrews Australia in December 2008, and the development of our deposit taking operation in Germany.

Impairments increased by £1,380 million to £1,443 million. Both Ireland and Australia have experienced significant deterioration in impaired assets driven by the severe decline in the commodity and property sectors in Australia and the collapse in liquidity in the Irish property markets.

GROUP OPERATIONS

	Half-year to 30 June 2009	Half-year to 30 June 2008	***Change***	Half-year to 31 Dec 2008
	£m	£m	*%*	£m
Net interest income	**(34)**	(29)	***(17)***	(30)

Other income	**21**	16	***31***	19
Total Income	**(13)**	(13)		(11)
Direct costs:				
Information technology	**(568)**	(615)	***8***	(606)
Operations	**(231)**	(210)	***(10)***	(222)
Property	**(490)**	(490)		(523)
Procurement	**(81)**	(79)	***(3)***	(82)
Support functions	**(59)**	(46)	***(28)***	(52)
	(1,429)	(1,440)	***1***	(1,485)
Result before recharges to divisions	**(1,442)**	(1,453)	***1***	(1,496)
Total net recharges to divisions	**1,386**	1,415	***(2)***	1,454
Share of results of joint ventures and associates	**1**	3		1
Profit (loss) before tax and fair value unwind	**(55)**	(35)	***(57)***	(41)
Fair value unwind	**-**	-		-
Profit (loss) before tax	**(55)**	(35)	***(57)***	(41)

Financial performance

Group Operations' direct costs decreased by 1 per cent to £1,429 million compared to the first half of 2008 with efficiency savings offsetting inflationary rises. Compared to the second half of 2008, direct costs decreased by 4 per cent reflecting initial synergy savings as part of the integration of the two heritage organisations.

Analysed by business function, IT costs decreased by 8 per cent to £568 million compared to the first half of 2008 due to lower investment demand as projects have been stopped as a result of integration. Operations' costs rose by £21 million to £231 million driven by increases in money transmission costs, increased collections activity and increases in depreciation. Property costs have remained flat at £490 million compared to the first half of 2008. Support function costs have increased by £13 million to £59 million largely as a result of investments to further improve fraud detection capability and payments filtering to ensure that the demands of increased regulation are met.

GROUP OPERATIONS (continued)

Strategic overview

Group Operations aims to be recognised as a world class operations business by colleagues, customers, stakeholders and peers. This will be achieved by providing excellent technology and process to support the businesses, driving simplification, automation and continuous improvement, developing world class operations' leadership and capability and maintaining strong controls and protecting the Group.

In addition to this the Integration programme will develop and deliver plans to deliver synergy benefits. The focus will be to combine systems and process legacies onto a single platform. This will primarily be achieved by delivering the IT consolidation, a single and centralised operating model, along with excellent disciplined procurement and rationalised property portfolio.

Business performance

Group Operations manages the Group's technology platforms, property estate, operations (including payments, banking operations and collections), procurement services and security. Through these businesses Group Operations drives efficiencies and supports income growth across multiple brands and channels using scalable platforms, common processes and leveraging the Group's purchasing power.

Information technology

The key focus for the first half of 2009 has been on combining the two organisations. We have analysed the best way of integrating the complex systems which support the Group, developed our plans and have already mobilised key streams of activity including hardware, networks and data migration. The focus for the remainder of the year will be to consolidate and scale the application suite and to mobilise for the later stages of the programme.

Operations

Operations includes Banking Operations, Collections and Recoveries and Payments and Business Services. The businesses have begun to consolidate processes, improve process efficiency whilst ensuring that there are optimal resources to support the front-line businesses given the changing economic environment. Future activity will concentrate on continuing to consolidate further our operations and drive further efficiency through continuous improvement and automation.

Procurement

Procurement is playing a key role in assisting the Group to achieve its integration synergy targets. It has delivered £34 million of savings to the end of June through consolidating existing contracts, leveraging the spend of our enlarged group and removing duplication in the supply base.

Property

Property is also a significant part of the Group's integration plans. Progress to date is on course to deliver target 2009 synergy benefits with 25 buildings exited in the first half of 2009. Group Property is also supporting the Retail division by managing the disposal of released branch assets.

CENTRAL ITEMS

	Half-year to 30 June 2009 £m	Half-year to 30 June 2008 £m	Half-year to 31 Dec 2008 £m
Net interest income	**(193)**	(41)	(172)
Other income	**689**	(57)	(166)
Total income	**496**	(98)	(338)
Operating expenses	**(103)**	(10)	(11)
Trading surplus (deficit)	**393**	(108)	(349)
Impairment	**-**	-	(60)
Share of results of joint ventures and associates	**4**	(1)	1
Profit (loss) before tax and fair value unwind	**397**	(109)	(408)
Fair value unwind	**(1,506)**	-	-
Profit (loss) before tax	**(1,109)**	(109)	(408)

Central items includes certain income and expenditure not recharged to the divisions including the costs of certain central and head office functions and banking volatility.

Central items profit before tax and fair value unwind in the first half of 2009 increased by £506 million to £397 million compared to a loss before tax of £109 million in the first half of 2008. This was primarily driven by the gain of approximately £745 million arising on the redemption of certain capital securities at a discount to their balance sheet carrying value.

Central items' costs increased by £93 million to £103 million due to higher professional fees and other costs associated with capital transactions and other projects.

ADDITIONAL INFORMATION

1. Basis of preparation of pro-forma results

Following the acquisition of HBOS plc on 16 January 2009, comparisons of results on a statutory basis are of limited benefit as the 2009 interim statutory results include the results of HBOS only from 16 January 2009, together with the effects of the unwind of fair value adjustments made to the HBOS balance sheet on acquisition, and the 2008 statutory results do not include any results of HBOS. In order to provide more meaningful and relevant comparatives, the results of the Group and divisions are presented on a 'pro-forma' basis. The key principles adopted in the preparation of the pro-forma basis of reporting are described below.

• In order to reflect the impact of the acquisition, the following adjustments have been made:

- The 2008 comparative results include the results of HBOS as if it had been acquired on 1 January 2008. The 2009 pro-forma results assume HBOS had been owned throughout the full period.

- The unwind of acquisition-related fair value adjustments are shown as one line in the 2009 pro-forma income statement and have not been back-dated to 2008.

- The gain on acquisition of HBOS and amortisation of purchased intangible assets have been excluded.

• In order to better present the underlying business performance the following items not related to the acquisition have also been excluded:

- The results of BankWest and St. Andrews, sold in December 2008, and the related loss on disposal;
- Insurance and policyholder interests volatility;
- Integration costs; and
- Goodwill impairment.

Comparisons with the 30 June 2009 statutory balance sheet are made with the pro-forma balance sheet at 31 December 2008, which aggregates the Lloyds TSB Group and the HBOS Group balance sheets at 31 December 2008, adjusted for the subsequent recapitalisation and reflects the fair value adjustments applied to the HBOS balance sheet at 16 January 2009.

The tables below set out a reconciliation from the published statutory results to the pro-forma results:

Half-year to 30 June 2009 Lloyds Banking Group	Statutory	Pre-acquisition results of HBOS	Removal of: Acquisition related[1]	Volatility	Insurance gross up	Fair value unwind	Pro-forma
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**4,499**	**243**	**-**	**(2)**	**206**	**1,496**	**6,442**
Other income	**8,201**	**(1,123)**	**-**	**593**	**(1,527)**	**(353)**	**5,791**
Total income	**12,700**	**(880)**	**-**	**591**	**(1,321)**	**1,143**	**12,233**
Insurance claims	**(2,902)**	**1,349**	**-**	**-**	**1,292**	**(33)**	**(294)**
Total income, net of insurance claims	**9,798**	**469**	**-**	**591**	**(29)**	**1,110**	**11,939**
Operating expenses	**(6,464)**	**(293)**	**962**	**-**	**22**	**55**	**(5,718)**
Trading surplus (deficit)	**3,334**	**176**	**962**	**591**	**(7)**	**1,165**	**6,221**
Impairment	**(8,053)**	**(456)**	**-**	**-**	**-**	**(4,890)**	**(13,399)**
Share of results of joint ventures	**(504)**	**-**	**-**	**-**	**-**	**(3)**	**(507)**

and associates							
Gain on acquisition	**11,173**	**-**	**(11,173)**	**-**	**-**	**-**	**-**
Fair value unwind		**-**	**-**	**-**	**-**	**3,728**	**3,728**
Profit (loss) before tax	**5,950**	**(280)**	**(10,211)**	**591**	**(7)**	**-**	**(3,957)**

(1) Includes gain on acquisition, integration costs, amortisation of purchased intangibles and goodwill impairment.

1. Basis of preparation of pro-forma results (continued)

Half-year to 30 June 2008	Lloyds TSB statutory(1) £m	HBOS statutory £m	Reclass-ifications £m	BankWest and St.Andrews £m	Removal of: Volatility £m	Amort-isation of purchased intangibles and goodwill impairment £m	Insurance gross up £m	Pro-forma £m
Net interest income	3,647	3,861	124	(229)	(5)	-	(356)	7,042
Other income	(367)	(1,511)	(83)	(84)	1,400	-	5,020	4,375
Total income	3,280	2,350	41	(313)	1,395	-	4,664	11,417
Insurance claims	1,344	3,098	15	-	-	-	(4,694)	(237)
Total income, net of insurance claims	4,624	5,448	56	(313)	1,395	-	(30)	11,180
Operating expenses	(2,936)	(3,177)	-	220	-	2	20	(5,871)
Trading surplus	1,688	2,271	56	(93)	1,395	2	(10)	5,309
Impairment	(1,099)	(1,455)	-	40	-	-	-	(2,514)
Share of results of joint ventures and associates	4	(24)	-	-	-	-	-	(20)
Non-operating income	-	56	(56)	-	-	-	-	-
Profit (loss) before tax	593	848	-	(53)	1,395	2	(10)	2,775

Removal of:

Half-year to 31 December 2008

	Lloyds TSB statutory[1] £m	HBOS statutory £m	Reclass-ifications £m	BankWest and St. Andrews £m	Volatility £m	Amort-isation of purchased intangibles and goodwill impairment £m	Insurance gross up £m	Pro-forma £m
Net interest income	4,071	4,310	1,782	(295)	(4)	-	(2,003)	7,861
Other income	(342)	(3,048)	(151)	(64)	958	-	5,205	2,558
Total income	3,729	1,262	1,631	(359)	954	-	3,202	10,419
Insurance claims	1,515	3,094	(1,585)	-	-	-	(3,268)	(244)
Total income, net of insurance claims	5,244	4,356	46	(359)	954	-	(66)	10,175
Operating expenses	(3,164)	(3,703)	-	180	-	256	66	(6,365)
Trading surplus	2,080	653	46	(179)	954	256	-	3,810
Impairment	(1,913)	(10,595)	-	142	-	-	-	(12,366)
Share of results of joint ventures and associates	-	(932)	-	-	-	-	-	(932)
Loss on disposal	-	(799)	(46)	845	-	-	-	-
	167	(11,673)	-	808	954	256	-	(9,488)

Profit
(loss)
before
tax

(1) Restated for the impact of IFRS 2 (Revised)

1. Basis of preparation of pro-forma results (continued)

As at 31 December 2008	Lloyds TSB statutory	HBOS	Reclass-ifications	Lloyds TSB and HBOS share issue	Provisional fair value adjustments	Consolidation adjustments	Pro-forma
Assets	£m	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	5,008	2,502	-	-	-	-	7,510
Derivative, trading and other financial assets at fair value through profit or loss	73,948	74,381	67,120	-	(808)	(1,112)	213,529
Loans and receivables:							
Loans and advances to customers	240,344	435,223	15,198	-	(13,512)	(7)	677,246
Loans and advances to banks	38,733	17,645	(849)	16,770	43	(8,823)	63,519
Debt securities	4,416	-	39,053	-	(1,411)	-	42,058
	283,493	452,868	53,402	16,770	(14,880)	(8,830)	782,823
Available-for-sale financial assets	55,707	-	28,048	-	-	(7,614)	76,141
Investment securities	-	133,372	(133,372)	-	-	-	-
Investment property	2,631	3,045	-	-	-	-	5,676
Goodwill and other intangibles	4,346	5,367	(300)	-	5,111	(1,556)	12,968
Tangible fixed assets	2,965	5,400	300	-	7	-	8,672
Other assets	7,935	12,982	-	-	(398)	(113)	20,406
Total assets	436,033	689,917	15,198	16,770	(10,968)	(19,225)	1,127,725
Liabilities							
Deposits from banks	66,514	97,150	-	-	109	(8,699)	155,074
Customer deposits	170,938	222,251	15,198	-	835	(60)	409,162
Derivative financial liabilities, trading and other financial liabilities at fair value through profit or loss	33,646	57,756	-	-	-	(637)	90,765
	75,710	188,448	-	-	(6,247)	(8,246)	249,665

Debt securities in issue							
Insurance liabilities	34,062	31,263	6,161	-	282	-	71,768
Liabilities arising from non-participating investment contracts	14,243	39,482	(10,425)	-	13	-	43,313
Other liabilities	12,194	9,797	4,264	-	1,436	(27)	27,664
Retirement benefit obligations	1,771	152	-	-	556	-	2,479
Subordinated liabilities	17,256	30,119	-	4,000	(9,193)	-	42,182
Total liabilities	426,334	676,418	15,198	4,000	(12,209)	(17,669)	1,092,072
Net assets	9,699	13,499	-	12,770	1,241	(1,556)	35,653

2. Banking net interest margin

	Half-year to 30 June 2009 £m	Half-year to 30 June 2008 £m	Half-year to 31 Dec 2008 £m
Banking net interest margin			
Banking net interest income	**5,724**	6,415	6,768
Average interest-earning assets, excluding reverse repos	**671,944**	644,889	666,969
Banking net interest margin	**1.72%**	2.00%	2.01%

Banking net interest income

The Group's net interest income includes certain amounts attributable to policyholders, in addition to the interest earnings on shareholders' funds held in the Group's insurance businesses. In addition, the Group's net interest income is significantly affected by the accounting treatment of certain products in Wholesale where either the funding costs or the related revenues are recognised within other income. In order to enhance comparability in the Group's banking net interest margins, these items have been excluded. A reconciliation of banking net interest income to Group net interest income follows:

	Half-year	Half-year	Half-year

	to 30 June 2009 £m	to 30 June 2008 £m	to 31 Dec 2008 £m
Banking net interest income - pro-forma	**5,724**	6,415	6,768
Wholesale - Treasury and Trading and other products	**849**	651	1,078
Insurance division	**(158)**	(190)	(155)
Other non product income	**27**	166	170
Group net interest income - pro-forma	**6,442**	7,042	7,861

3. Integration costs and benefits

Annualised cost savings from synergies and other operating efficiencies in excess of £1.5 billion are targeted by the end of 2011. Total cost reductions from synergies of £107 million, which are analysed by division in the table below, are included in the Group's pro-forma loss before tax for the half-year to 30 June 2009. These benefits relate primarily to reductions in staff numbers and procurement savings. During 2009 the principal benefits will be from activities not associated with the delivery of IT integration.

One off integration costs of £358 million were incurred in the first half of 2009 which have been excluded from the pro-forma loss before tax. The integration costs are mainly severance provisions for the 6,400 planned role reductions announced in the first half of 2009, the majority of whom will not leave until the second half, thus reducing the in-year benefit.

	Savings realised half-year to 30 June 2009
By division	**£m**
Retail	**28**
Wholesale	**11**
Insurance	**11**
Wealth and International	**-**
Group Operations	**49**
Central items	**8**
Total	**107**
By expenditure type	
People	**43**
Procurement	**34**
IT	**24**
Property	**2**
Other	**4**

Total	**107**

It is expected that over £400 million of synergies and other operating efficiencies will be achieved in 2009, which will translate into approximately £700 million of annualised run-rate benefit.

3. Integration costs and benefits (continued)

In the circular to shareholders regarding the acquisition of HBOS, it was stated that annual cost savings of £1.5 billion (run-rate) are expected to be achieved by the end of 2011. An analysis by division is shown below.

	Latest view of synergy targets	Allocation of Group Operations target to divisions	Latest view by market facing division
	£m	£m	£m
Retail	**350**	430	780
Wholesale	**225**	200	425
Insurance	**125**	80	205
Wealth and International	**40**	-	40
Group Operations	**710**	(710)	-
Central items	**50**	-	50
Total	**1,500**	-	1,500

4. Impairment losses by division

	Half-year to 30 June 2009	Half-year to 30 June 2008	Half-year to 31 Dec 2008
	£m	£m	£m
Retail:			
Secured	**591**	258	1,037
Unsecured	**1,597**	1,113	1,287
	2,188	1,371	2,324
Wholesale	**8,343**	872	6,997
Wealth and International	**1,461**	68	627
Impairment losses on loans and advances to customers	**11,992**	2,311	9,948
Impairment losses on loans and advances to banks	**14**	-	135

Impairment losses on debt securities classified as loans and receivables	**853**	81	999
Impairment of available-for-sale financial assets	**495**	126	1,274
Other credit risk provisions	**45**	(4)	10
Total impairment charge	**13,399**	2,514	12,366
Charge for impairment losses on loans and advances to customers as % of average lending:			
Retail			
Secured	**0.34**	0.15	0.59
Unsecured	**9.06**	6.22	7.06
	1.15	0.73	1.21
Wholesale	**6.87**	0.75	5.77
Wealth and International	**4.55**	0.24	2.13
Total charge	**3.47**	0.70	2.89

5. Earnings per share

	Half-year to 30 June 2009	Half-year to 30 June 2008	Half-year to 31 Dec 2008
Pro-forma basis[(1)]			
Profit (loss) attributable to equity shareholders	**£(3,124)m**	£1,954m	£(6,887)m
Weighted average number of ordinary shares in issue	**16,938m**	8,109m	9,258m
Earnings per share	**(18.4)p**	24.1p	(74.4)p

(1) Adjusted to reflect the capitalisation issue

6. Volatility

During the first half of 2009, profit (loss) before tax included negative insurance and policyholder interests volatility of £591 million, being a credit of £2 million to net interest income and a charge of £593 million to other income (H1 2008: negative volatility of £1,395 million, being a credit of £5 million to net interest income and a charge of £1,400 million to other income).

Volatility comprises the following:

	Half-year to 30 June 2009	Half-year to 30 June 2008	Half-year to 31 Dec 2008

	£m	£m	£m
Insurance volatility	**(484)**	(763)	(662)
Policyholders interests volatility	**(107)**	(632)	(292)
Total	**(591)**	(1,395)	(954)

Insurance volatility

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

Changes in market variables also affect the realistic valuation of the guarantees and options embedded within products written in the Scottish Widows and Clerical Medical With Profits Funds, the value of the in-force business and the value of shareholders' funds. Fluctuations in these values caused by changes in market variables, including corporate bond spreads, are also included within insurance volatility.

6. Volatility (continued)

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

	2009	2008	2007
	%	%	%
Gilt yields (gross)	**3.74**	4.55	4.62
Equity returns (gross)	**6.74**	7.55	7.62
Dividend yield	**3.00**	3.00	3.00
Property return (gross)	**6.74**	7.55	7.62
Corporate bonds in unit linked and with-profit funds (gross)	**4.34**	5.15	5.22
Fixed interest investments backing annuity liabilities (gross)	**5.87**	5.56	5.09

During the first half of 2009, loss before tax included negative insurance volatility of £484 million, being a credit of £2 million to net interest income and a charge of £486 million to other income. This compared to negative insurance volatility of £763 million during the first half of 2008, being a credit of £5 million to net interest income and a charge of £768 million to other income.

The charge in the first half of 2009 reflects the fall in global equities markets and a reduction in the value of property and fixed interest investment relative to the expected rate of return. These lower than expected returns reduced the value of in-force business held on the balance sheet. Lower bond prices also affected the valuation of the Group's investments held within the funds attributable to the shareholder; there was no significant exposure to assets held at fair value through profit or loss valued using unobservable market inputs.

The liabilities in respect of the Group's annuity business are matched by a portfolio of fixed interest securities, which includes a large proportion of corporate bonds. In accordance with the approach adopted in 2008, the value of in-force business for the annuity business has been calculated after taking into account an estimate of the market premium for illiquidity in respect of these corporate bond holdings. The illiquidity premium is estimated to be 121 basis points as at 30 June 2009 (31 December 2008: 154 basis points). The reduction in the value of the illiquidity premium over the first six months of 2009 has offset the gains made on the assets backing the annuity liabilities, reducing the overall volatility of the results.

Policyholder interests volatility

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

6. Volatility (continued)

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

During the six months to 30 June 2009, loss before tax included negative policyholder interests volatility of £107 million, being a charge to other income (H1 2008: negative volatility of £632 million, being a charge to other income). In the first half 2009 and 2008, substantial policyholder tax losses have been generated as a result of a fall in property, bond and equity values. These losses reduce future policyholder tax liabilities and have led to a policyholder tax credit of £111 million during the year. This was offset by £4 million in variances from expected policyholder tax and charges differences.

7. Loans and advances to customers

	As at	As at
	30 June	31 Dec
	2009	2008
	£m	£m

Agriculture, forestry and fishing	**5,178**	4,823
Energy and water supply	**3,394**	3,488
Manufacturing	**16,092**	19,493
Construction	**13,654**	14,472
Transport, distribution and hotels	**32,897**	37,328
Postal and communications	**1,937**	2,018
Property companies	**84,286**	87,125
Financial, business and other services	**83,850**	88,508
Personal: mortgages	**374,269**	378,287
other	**49,226**	49,172
Lease financing and hire purchase	**18,504**	20,196
	683,287	704,910
Allowance for impairment losses on loans and advances	**(20,700)**	(14,152)
Fair value adjustments	**(9,988)**	(13,512)
Total loans and advances to customers	**652,599**	677,246

8. Credit market exposures

The table below summarises the Group's exposure to Asset Backed Securities within the Wholesale division.

	Loans and receivables	**Avai lable-for-sale**	**Fair value through profit or loss**	**Net exposure as at 30 June 2009**	Net exposure as at 31 Dec 2008
	£bn	**£bn**	**£bn**	**£bn**	£bn
Mortgage backed securities					
US RMBS(1)	**5.9**	**-**	**-**	**5.9**	7.4
Non-US RMBS	**6.7**	**3.7**	**-**	**10.4**	12.5
CMBS(1)	**2.6**	**1.0**	**-**	**3.6**	4.6
	15.2	**4.7**	**-**	**19.9**	24.5
Collateralised Debt Obligations					
Corporate	**1.0**	**-**	**-**	**1.0**	1.4
Commercial real estate	**0.6**	**-**	**-**	**0.6**	0.6
Other	**0.2**	**-**	**-**	**0.2**	0.3
CLO(1)	**4.1**	**1.6**	**-**	**5.7**	5.8
	5.9	**1.6**	**-**	**7.5**	8.1
Personal sector					
Auto loans	**1.2**	**0.7**	**-**	**1.9**	2.4
Credit cards	**3.0**	**1.1**	**-**	**4.1**	4.6
Personal loans	**1.0**	**-**	**-**	**1.0**	1.1

	5.2	**1.8**	**-**	**7.0**	8.1
FFELP student loans[1]	**5.9**	**3.3**	**-**	**9.2**	10.0
Other ABS	**0.4**	**0.7**	**-**	**1.1**	1.7
Total uncovered ABS	**32.6**	**12.1**	**-**	**44.7**	52.4
Negative basis[2]	**-**	**-**	**1.5**	**1.5**	3.3
Total Asset Backed Securities	**32.6**	**12.1**	**1.5**	**46.2**	55.7
Direct	**18.7**	**7.1**	**1.5**	**27.3**	32.2
Conduits	**13.9**	**5.0**	**-**	**18.9**	23.5
Total Asset Backed Securities	**32.6**	**12.1**	**1.5**	**46.2**	55.7

(1) RMBS means Residential Mortgage Backed Securities; CMBS means Commercial Mortgage Backed Securities; CLO means Collateralised Loan Obligations; FFELP means Federal Family Education Loan Program.

(2) Negative basis means bonds held with separate matching credit default swap (CDS) protection.

8. Credit market exposures (continued)

The table below sets out our net exposure to US RMBS by vintage.

	Pre-2005	2005	2006	2007	**Net exposure as at 30 June 2009**	Net exposure as at 31 Dec 2008
Asset class	£m	£m	£m	£m	**£m**	£m
Prime	311	479	249	152	**1,191**	1,895
Alt-A	151	834	1,867	1,814	**4,666**	5,404
Sub-prime	55	17	-	-	**72**	77