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

FORM 6-K

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

04 August 2011

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

5th Floor
25 Gresham Street
London
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United Kingdom

(Address of principal executive offices)

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

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

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

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

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

Index to Exhibits

Item

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

re: 2011 Half-Year Results

Lloyds Banking Group plc

2011 Half-Year Results
News Release
4 August 2011

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the half-year ended 30 June 2011.

Statutory basis

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

Combined businesses basis

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

- In order to reflect the impact of the acquisition of HBOS, the amortisation of purchased intangible assets has been excluded; and the unwind of acquisition-related fair value adjustments is shown as one line in the combined businesses income statement.
- In order to better present the business performance the following items, not related to acquisition accounting, have also been excluded:
  - integration costs;
  - volatility arising in insurance businesses;
  - curtailment gains and losses in respect of the Group's defined benefit pension schemes;
  - customer goodwill payments provision;
  - payment protection insurance provision;
  - sale costs in respect of the EU mandated retail business disposal; and
  - loss on disposal of businesses.

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

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

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

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

Unless otherwise stated income statement commentaries throughout this document compare the half-year to 30 June 2011 to the half-year to 30 June 2010, and the balance sheet analysis compares the Group balance sheet as at 30 June 2011 to the Group balance sheet as at 31 December 2010.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of risks, uncertainties and other factors, including, without limitation, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, as well as the ability to integrate successfully the acquisition of HBOS; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets; changing demographic and market related trends; changes in customer preferences; changes to regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK, the European Union, or jurisdictions outside the UK, including other European countries and the US; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EU state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations; exposure to regulatory scrutiny, legal proceedings or complaints, actions of competitors and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of such factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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KEY HIGHLIGHTS

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

António Horta-Osório
Group Chief Executive

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

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

RESILIENT COMBINED BUSINESSES PERFORMANCE, IN LINE WITH OUR EXPECTATIONS

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

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

STATUTORY RESULTS INCLUDE PPI PROVISION

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

SUPPORTING THE UK'S ECONOMIC RECOVERY

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

2011 GUIDANCE AND 2014 FINANCIAL TARGETS UNCHANGED

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

SUMMARY OF RESULTS

Results	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Statutory				
Total income, net of insurance claims	10,854	12,591	(14)	12,365
Total operating expenses	(9,628)	(5,811)	(66)	(7,459)

Trading surplus	1,226	6,780	(82)	4,906
Impairment	(4,491)	(5,423)	17	(5,529)
(Loss) profit before tax	(3,251)	1,296		(1,015)
(Loss) profit attributable to equity shareholders	(2,305)	596		(916)
(Loss) earnings per share	(3.4)p	0.9p		(1.3)p
Combined businesses basis (note 1, page 80)				
Total income, net of insurance claims	10,178	12,481	(18)	10,963
Underlying total income, net of insurance claims1	10,414	11,866	(12)	11,775
Operating expenses2	(5,332)	(5,435)	2	(5,493)
Trading surplus	4,846	6,896	(30)	5,470
Impairment	(5,422)	(6,554)	17	(6,627)
Profit before tax	1,104	1,603	(31)	609
Underlying profit before tax1	1,340	988	36	1,421
Banking net interest margin	2.07%	2.08%		2.12%
Banking asset margin	1.43%	1.55%		1.57%
Banking liability margin	1.05%	0.98%		0.97%
Cost:income ratio2,3	52.4%	43.5%		50.1%
Underlying cost:income ratio1,2,3	51.2%	45.8%		46.6%
Impairment as a % of average advances4	1.77%	2.01%		2.02%
Combined businesses basis - core				
Total income, net of insurance claims	9,250	10,571	(12)	9,062
Underlying total income, net of insurance claims	9,486	9,956	(5)	9,874
Operating expenses	(4,860)	(4,908)	1	(4,976)
Trading surplus	4,390	5,663	(22)	4,086
Impairment	(1,636)	(1,653)	1	(1,959)
Profit before tax	2,660	3,691	(28)	2,071
Underlying profit before tax	2,896	3,076	(6)	2,883
Banking net interest margin	2.35%	2.28%		2.33%
Cost:income ratio3	52.5%	46.4%		54.9%
Underlying cost:income ratio1,3	51.2%	49.3%		50.4%
Impairment as a % of average advances4	0.72%	0.70%		0.81%

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

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

3 Operating expenses divided by total income, net of insurance claims.

4 Impairment on loans and advances to customers divided by average loans and advances to customers, excluding reverse repo transactions, gross of allowance for impairment losses.

SUMMARY OF RESULTS (continued)

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

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

1 Includes reverse repos of £19.7 billion (31 December 2010: £3.1 billion).
2 Includes repos of £5.0 billion (31 December 2010: £11.1 billion).
3 Total customer balances are the aggregate of loans and advances to customers excluding reverse repos and customer deposits excluding repos.

4 Excludes repos of £5.0 billion (31 December 2010: £11.1 billion) and reverse repos of £19.7 billion (31 December 2010: £3.1 billion).
5 Funds under management within Wealth and International division.

GROUP CHIEF EXECUTIVE'S STATEMENT

Summary

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

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

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

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

Results overview

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

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

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

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

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

Our actions since 1 March

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

Management and organisation

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

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

In addition, in the Merlin agreement with the UK Government, the Group and four other major UK banks announced in February the intention to enhance support for the UK economic recovery by delivering increased gross business lending in 2011 compared to 2010. The Merlin banks further agreed to provide the capacity to support additional gross new lending of up to £190 billion to creditworthy UK businesses, including £76 billion for SMEs, if sufficient demand emerges.

Based on performance in the first half of 2011, the Group is on track to deliver its full year contribution to the Merlin lending agreement, subject to sufficient demand for finance being maintained in the current economic climate. The Group actively looks at all opportunities to support UK businesses and we continue to innovate in the market to meet our customers' needs. These efforts are directly reflected in our once again being voted 'Bank of the Year' for businesses, as described in the 'Awards' section of this review. To the end of June 2011, we have provided £21.2 billion of committed gross lending to UK businesses, of which £6.7 billion has been to SMEs.

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

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

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

Integration programme on track

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

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

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

Our strategy to deliver for customers and shareholders

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

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

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

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

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

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

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

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

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

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

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

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

Economic outlook

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Provision for Payment Protection Insurance contact and redress

On 20 April 2011, the High Court dismissed the application of the British Bankers' Association (BBA) to seek judicial review against the Financial Services Authority (FSA) and the Financial Ombudsman Service (FOS) regarding the handling of PPI complaints. After publication of the judgment, the Group entered into discussions with the FSA with a view to seeking clarity around the detailed implementation of the FSA Policy Statement of 10 August 2010, which sets out evidential provisions and guidance on the fair assessment of customer complaints and the calculation of redress, and concluded that there are certain circumstances where customer contact and/or redress is appropriate. While there remain a number of uncertainties as to the eventual costs from any such contact and/or redress, the Group has made a provision of £3,200 million in the first half of 2011, which has been excluded from the combined businesses results.

Independent Commission on Banking (ICB)

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

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

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

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Our people

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

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

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

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

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

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

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

António Horta-Osório
Group Chief Executive

COMBINED BUSINESSES INFORMATION

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

COMBINED BUSINESSES CONSOLIDATED INCOME STATEMENT

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

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

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

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

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Profit before tax - combined businesses	1,104	1,603	609
Integration costs	(642)	(804)	(849)
Volatility arising in insurance businesses (note 5, page 86)	(177)	(199)	505
Amortisation of purchased intangibles	(289)	(323)	(306)
Customer goodwill payments provision	-	-	(500)
Pension curtailment gain (loss) (note 4, page 153)	-	1,019	(109)
Payment protection insurance provision (note 22, page 165)	(3,200)	-	-
EU mandated retail business disposal costs	(47)	-	-
Loss on disposal of businesses	-	-	(365)
(Loss) profit before tax - statutory	(3,251)	1,296	(1,015)

COMBINED BUSINESSES CONSOLIDATED INCOME STATEMENT

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

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

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

COMBINED BUSINESSES PROFIT (LOSS) ANALYSIS BY DIVISION

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Retail	2,200	2,495	2,221
Wholesale	1,429	585	2,333
Commercial1	262	157	182
Wealth and International	(2,080)	(1,609)	(3,215)
Insurance	543	469	633
Group Operations and Central items:			
Group Operations	(62)	(56)	(7)
Central items	(1,188)	(438)	(1,538)
	(1,250)	(494)	(1,545)
Profit before tax	1,104	1,603	609

1

Given the importance of the Group's role in the UK's economic recovery through actively supporting SME lending, the Group is now reporting Commercial separately. Commercial comprises the Group's SME business and was previously part of Wholesale. Comparatives have been restated accordingly.

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

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

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE AND OUTLOOK

Performance in line with our expectations

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

On a combined businesses basis, profit before tax decreased to £1,104 million in the first half of 2011, compared to £1,603 million in the first half of 2010, a reduction of 31 per cent. This reflected the absence this year of £423 million of gains from liability management exercises which had benefited the first half of 2010, and £236 million of mark-to-market losses arising from the equity conversion feature of the Group's Enhanced Capital Notes (ECNs) in the first half of 2011, compared to gains of £192 million in the first half of 2010 ('liability management and ECN effects'). Excluding these effects, combined businesses profit before tax increased by 36 per cent, with a significant improvement in Wholesale performance partly offset by an increased loss in our International business.

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

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

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

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

Core and non-core profit before tax

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Core	2,660	3,691	(28)	2,071
Non-core	(1,556)	(2,088)	25	(1,462)
Total	1,104	1,603	(31)	609

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

Further progress in reducing the Group's risk

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

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

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

Combined businesses results summary - income

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	6,378	6,911	(8)	6,911
Other income:				
Underlying other income	4,234	5,216	(19)	5,145
Liability management gains	-	423		-
	(236)	192		(812)

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

Group income performance

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

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

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

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

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

Core and non-core underlying income performance

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

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

Core and non-core net interest margin

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

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

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

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

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

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

Outlook - income

2011 guidance

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

2014 targets

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

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

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

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

Combined businesses results summary - costs

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Operating expenses	5,332	5,435	2	5,493
Impairment of tangible fixed assets1	-	150		-
Total costs	5,332	5,585	5	5,493
Integration synergies run rate	1,750	1,084	61	1,379
Underlying cost:income ratio	51.2%	45.8%		46.6%

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

Further progress in delivering integration savings

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

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

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

We have continued to make significant progress with the integration programme with annual run-rate savings totalling £1,750 million achieved as at 30 June 2011. We are on schedule to deliver run-rate cost synergies and other operating efficiencies of £2 billion per annum by the end of 2011.

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

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

Core and non-core operating expenses

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Core				
Operating expenses	4,860	4,908	1	4,976
Underlying cost:income ratio	51.2%	49.3%		50.4%
Non-core				
Operating expenses	472	527	10	517
Impairment of tangible fixed assets	-	150		-
	472	677	30	517

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

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

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

Outlook - expenses

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

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

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

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

Combined businesses results summary - impairment charge

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

Further reductions in the impairment charge

The Group saw a reduction in the impairment charge in the first half of 2011. The impairment charge of £5,422 million was 17 per cent lower than the £6,554 million charge in the first half of 2010, with higher charges in Ireland and Australasia more than offset by improvements elsewhere in the Group, particularly the substantial fall in the Wholesale division's impairment charge compared to the first half of 2010.

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

Retail's impairment charge reduced by 12 per cent, driven by the unsecured portfolio, supported by prudent risk management, improved business quality, and a stabilising economy. Credit performance remained strong with fewer assets entering arrears compared to the second half of 2010, in both the secured and unsecured portfolios. As a percentage of average advances, the impairment charge decreased to 0.65 per cent, from 0.76 per cent in the second half of 2010.

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

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

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

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

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

The decrease in this period has continued to be primarily driven by lower impairment from the HBOS heritage corporate real estate and real estate related asset portfolios, together with the stabilising UK and US economic environment in 2010 and so far in 2011 a low interest rate environment helping to maintain defaults at a relatively lower level. This was partly offset by increased impairment on leveraged acquisition finance exposures.

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

In Wealth and International, impairment charges totalled £2,532 million, an increase of 14 per cent from £2,228 million in the first half of 2010. This was predominantly as a result of our Irish portfolio where we have allowed for further falls in commercial real estate prices, which resulted in the impairment charge being approximately £500 million above our expectations at the beginning of the year, as well as weakness in our Australasian portfolio.

In Ireland in the first half of this year, a further 11 per cent of the £27.6 billion loans became impaired, resulting in 64.1 per cent of the Irish portfolio now being impaired. Provisions as a percentage of impaired Irish loans were 55.8 per cent at the end of June 2011 (31 December 2010: 53.7 per cent). In Australasia, although economic performance has been robust overall, the Group's portfolio has significant geographical and sector concentrations and these assets continue to be a concern. The Group also took a charge of £70 million in the first half of this year as a result of losses arising from the earthquake in New Zealand.

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

Core and non-core impairment performance

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

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

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

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

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

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

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

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

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

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

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

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

Capital resources

	As at	As at

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

Stable capital ratios

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

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

Outlook - effects of Basel 3 and capital resources outlook

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

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

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

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

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

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

Outlook - return on equity outlook

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

Balance sheet

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

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

Further progress on balance sheet reduction plans

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

Outlook - balance sheet

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

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

Liquidity and funding

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reconciliation of combined businesses results to statutory results

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Profit before tax - combined businesses	1,104	1,603	609
Integration costs	(642)	(804)	(849)
Volatility arising in insurance businesses	(177)	(199)	505
Amortisation of purchased intangibles	(289)	(323)	(306)
Customer goodwill payments provision	-	-	(500)
Pension curtailment gain (loss)	-	1,019	(109)
Payment protection insurance provision	(3,200)	-	-
EU mandated retail business disposal costs	(47)	-	-
Loss on disposal of businesses	-	-	(365)
(Loss) profit before tax - statutory	(3,251)	1,296	(1,015)
Taxation	973	(630)	91
(Loss) profit for the period	(2,278)	666	(924)
(Loss) earnings per share	(3.4)p	0.9p	(1.3)p

Integration costs

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

Volatility arising in insurance businesses

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

Taxation

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

Acquisition related balance sheet adjustments

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

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

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

Income statement	
Income	c£1.2 billion
Expenses	c£0.5 billion
Impairment charge	c£0.2 billion
Profit before tax	c£0.5 billion
Balance sheet	
Risk-weighted assets	c£16 billion
Assets	c£64 billion
Liabilities	c£32 billion

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

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

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

Tim Tookey
Group Finance Director

COMBINED BUSINESSES SEGMENTAL ANALYSIS

Half-year to 30 June 2011	Retail £m	Wholesale £m	Commercial £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	4,163	1,401	649	509	(142)	(202)	6,378

Other income	884	1,337	218	631	1,319	(391)	3,998
Total income	5,047	2,738	867	1,140	1,177	(593)	10,376
Insurance claims	-	-	-	-	(198)	-	(198)
Total income, net of insurance claims	5,047	2,738	867	1,140	979	(593)	10,178
Operating expenses	(2,221)	(1,312)	(471)	(792)	(415)	(121)	(5,332)
Trading surplus	2,826	1,426	396	348	564	(714)	4,846
Impairment	(1,173)	(1,557)	(160)	(2,532)	-	-	(5,422)
Share of results of joint ventures and associates	3	9	-	-	-	-	12
Profit (loss) before tax and fair value unwind	1,656	(122)	236	(2,184)	564	(714)	(564)
Fair value unwind1	544	1,551	26	104	(21)	(536)	1,668
Profit (loss) before tax	2,200	1,429	262	(2,080)	543	(1,250)	1,104
Banking net interest margin2	2.26%	1.64%	4.35%	1.47%			2.07%
Cost:income ratio3	44.0%	47.9%	54.3%	69.5%	42.4%		52.4%
Impairment as a % of average advances (annualised)4	0.65%	2.02%	1.07%	7.89%			1.77%

Key balance sheet and other items As at 30 June 2011	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excl reverse repos	357.8	130.1	28.7	51.1		0.4	568.1
Customer deposits excl repos	242.3	81.0	32.7	38.9			394.9
Total customer balances	600.1	211.1	61.4	90.0		0.4	963.0
Risk-weighted assets	109.6	176.6	26.8	56.4		13.9	383.3

1 The net credit in the first half of 2011 of £1,668 million is mainly attributable to a reduction in the impairment charge of £931 million as losses reflected in the acquisition balance sheet valuations of the lending and securities portfolios have been incurred.

2 The calculation basis for banking net interest margins is set out in note 2 on page 83.

3 Operating expenses divided by total income net of insurance claims.

4 Impairment on loans and advances to customers divided by average loans and advances to customers, excluding reverse repurchase transactions, gross of allowance for impairment losses.

COMBINED BUSINESSES SEGMENTAL ANALYSIS (continued)

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

						and Central items	
Half-year to 30 June 2010	£m	£m	£m	£m	£m	£m	£m
Net interest income	4,636	1,576	571	596	(136)	(332)	6,911
Other income	836	1,988	227	605	1,320	855	5,831
Total income	5,472	3,564	798	1,201	1,184	523	12,742
Insurance claims	-	-	-	-	(261)	-	(261)
Total income, net of insurance claims	5,472	3,564	798	1,201	923	523	12,481
Costs:							
Operating expenses	(2,233)	(1,401)	(481)	(744)	(423)	(153)	(5,435)
Impairment of tangible fixed assets	-	(150)	-	-	-	-	(150)
	(2,233)	(1,551)	(481)	(744)	(423)	(153)	(5,585)
Trading surplus	3,239	2,013	317	457	500	370	6,896
Impairment	(1,335)	(2,801)	(190)	(2,228)	-	-	(6,554)
Share of results of joint ventures and associates	8	(60)	-	(2)	(10)	2	(62)
Profit (loss) before tax and fair value unwind	1,912	(848)	127	(1,773)	490	372	280
Fair value unwind	583	1,433	30	164	(21)	(866)	1,323
Profit (loss) before tax	2,495	585	157	(1,609)	469	(494)	1,603
Banking net interest margin	2.44%	1.51%	3.82%	1.65%			2.08%
Cost:income ratio	40.8%	39.3%	60.3%	61.9%	45.8%		43.5%
Impairment as a % of average advances (annualised)	0.72%	3.11%	1.28%	6.56%			2.01%

Key balance sheet and other items As at 30 June 2010	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excl reverse repos	368.0	155.1	28.7	57.6		1.9	611.3
Customer deposits excl repos	230.7	83.4	30.8	30.3		0.1	375.3
Total customer balances	598.7	238.5	59.5	87.9		2.0	986.6
Risk-weighted assets	106.8	251.5	29.2	59.3		16.4	463.2

COMBINED BUSINESSES SEGMENTAL ANALYSIS (continued)

Half-year to 31 Dec 2010	Retail £m	Wholesale £m	Commercial £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	4,742	1,675	604	580	(127)	(563)	6,911
Other income	771	1,691	230	555	1,494	(408)	4,333
Total income	5,513	3,366	834	1,135	1,367	(971)	11,244
Insurance claims	-	-	-	-	(281)	-	(281)
Total income, net of insurance claims	5,513	3,366	834	1,135	1,086	(971)	10,963
Operating expenses	(2,411)	(1,351)	(511)	(792)	(431)	3	(5,493)
Trading surplus	3,102	2,015	323	343	655	(968)	5,470
Impairment	(1,412)	(1,263)	(192)	(3,760)	-	-	(6,627)
Share of results of joint ventures and associates	9	(35)	-	(6)	-	3	(29)
Profit (loss) before tax and fair value unwind	1,699	717	131	(3,423)	655	(965)	(1,186)
Fair value unwind	522	1,616	51	208	(22)	(580)	1,795
Profit (loss) before tax	2,221	2,333	182	(3,215)	633	(1,545)	609
Banking net interest margin	2.49%	1.54%	3.93%	1.61%			2.12%
Cost:income ratio	43.7%	40.1%	61.3%	69.8%	39.7%		50.1%
Impairment as a % of average advances (annualised)	0.76%	1.31%	1.19%	11.29%			2.02%

Key balance sheet and other items As at 31 December 2010	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excl reverse repos	363.7	141.5	28.6	55.3		0.4	589.5
Customer deposits excl repos	235.6	82.8	31.3	32.8		-	382.5
	599.3	224.3	59.9	88.1		0.4	972.0

Total customer balances							
Risk-weighted assets	109.3	196.1	26.6	58.7		15.7	406.4

DIVISIONAL PERFORMANCE

RETAIL

Key highlights

- Profit before tax decreased to £2,200 million, compared to £2,495 million in the first half of 2010.

- Profit before tax and fair value unwind was £1,656 million, a reduction of 13 per cent compared with the first half of 2010, driven by higher funding costs and muted demand for credit.

- Total income decreased by 8 per cent, driven by lower net interest income, largely as a result of higher funding costs, muted demand for credit, the continued impact from previous de-risking of the lending portfolio with a corresponding reduction in impairments and increased competition for deposits while we continued to reduce our funding gap.

- Operating expenses reduced by 1 per cent compared with the first half of 2010. However the cost:income ratio increased to 44.0 per cent, as a result of the reduction in income. Operating expenses benefited from cost synergies partly offset by investment in our digital platforms, improvements to complaints handling processes and inflation.

- The impairment charge reduced to £1,173 million, down by 12 per cent, particularly driven by the reduction in the unsecured charge reflecting the impact of our prudent risk appetite with improved new business quality and effective portfolio management. Credit performance across the business also continues to be supported by prudent risk management, a continued subdued UK economic recovery and low interest rates.

- Core business profit before tax and fair value unwind was £1,566 million a reduction of 8 per cent compared to the first half of 2010. This was driven by a reduction in core income of 7 per cent, due to the same factors as the combined business. The reduction in trading surplus was partially offset by significant improvements in impairments which decreased by 18 per cent compared with the first half of 2010.

- Customer deposit growth continued to strengthen during the first half of 2011, with balances increasing by £6.7 billion, or 3 per cent, from 31 December 2010 (more than three times the growth in the market). This growth was largely driven by strong tax-free cash ISA balance growth where Retail achieved growth significantly above its share of balances outstanding.

- Loans and advances to customers decreased by £5.9 billion, or 2 per cent, from 31 December 2010 as customers continued to reduce their personal indebtedness. In particular, customers continued to pay down unsecured debts. In the first half of 2011 gross mortgage lending was £12.9 billion, which was equivalent to a market share of over 20 per cent, as Retail continued to support the housing market and first time buyers.

RETAIL (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	4,163	4,636	(10)	4,742
Other income	884	836	6	771
Total income	5,047	5,472	(8)	5,513
Operating expenses	(2,221)	(2,233)	1	(2,411)
Trading surplus	2,826	3,239	(13)	3,102
Impairment	(1,173)	(1,335)	12	(1,412)
Share of results of joint ventures and associates	3	8	(63)	9
Profit before tax and fair value unwind	1,656	1,912	(13)	1,699
Fair value unwind	544	583	(7)	522
Profit before tax	2,200	2,495	(12)	2,221
Banking net interest margin	2.26%	2.44%		2.49%
Cost:income ratio	44.0%	40.8%		43.7%
Impairment as a % of average advances (annualised)	0.65%	0.72%		0.76%

	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers			
Secured	333.1	337.3	(1)
Unsecured	24.7	26.4	(6)
	357.8	363.7	(2)
Customer deposits			
Savings	202.3	195.3	4
Current accounts	40.0	40.3	(1)
	242.3	235.6	3
Total customer balances	600.1	599.3	
Risk-weighted assets	109.6	109.3	

RETAIL (continued)

Financial performance
Profit before tax decreased to £2,200 million compared to £2,495 million in the first half of 2010, a reduction of £295 million.

Profit before tax and fair value unwind decreased to £1,656 million, a reduction of 13 per cent compared with the first half of 2010, driven by higher funding costs and the muted demand for credit.

Total income decreased by £425 million, or 8 per cent, to £5,047 million. This was driven by a reduction in net interest income of £473 million, partially offset by an increase in other income of £48 million.

Net interest income reduced by 10 per cent when compared with the first half of 2010. One of the main drivers was the increase in wholesale funding costs which were not matched by average customer rates, particularly as mortgage standard variable rates remained constant over the period. Income growth was also constrained by muted demand for both secured and unsecured credit. Previous de-risking of the lending portfolio, with a relative reduction in unsecured balances, also contributed to the reduction in income albeit with a corresponding reduction in impairment. Finally, increased competition for deposits resulted in an increase in the average rate paid on customer deposits while we continued to reduce our reliance on wholesale funding.

Other income increased by 6 per cent in the first half of 2011 to £884 million from £836 million largely as a result of the sale of Visa Inc shares which resulted in a profit of £41 million in the first half 2011.

Total income is analysed as follows and reflects the trends discussed above:

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Mortgages and Savings	2,151	2,294	(6)	2,445
Consumer Banking	2,896	3,178	(9)	3,068
Total income	5,047	5,472	(8)	5,513

Operating expenses fell by 1 per cent compared with the first half of 2010 (8 per cent compared with the second half of 2010) and the cost:income ratio was 44.0 per cent. Operating expenses benefited from cost synergies partly offset by investment in our digital platforms, improvements to the complaints handling processes and inflation. During the first half of the year Retail successfully completed the consolidation of the branch counters and the ATM network onto one IT system significantly simplifying its infrastructure.

The impairment charge on loans and advances decreased by £162 million, or 12 per cent, to £1,173 million largely driven by reductions in the unsecured charge (when compared to the second half of 2010 the reduction was £239 million, or 17 per cent). The unsecured impairment charge reduced to £878 million from £1,282 million in the first half of 2010 reflecting the impact of our prudent risk appetite with improved new business quality, effective portfolio management and a reduction in unsecured balances. Credit performance across the business also continued to be supported by prudent risk management, a continued subdued economic recovery in the UK and low interest rates. The secured impairment charge increased to £295 million from £53 million in the first half of 2010 largely reflecting a less favourable outlook for house prices compared with our outlook at the end of the first half of 2010.

The fair value unwind net credit of £544 million compared with £583 million in the first half of 2010. The net impact of the unwind was slightly smaller than in the first half of 2010. This reflected a lower net credit related to the mortgage portfolios as fewer mortgages reached the end of their product term and moved to standard variable rate products, which was broadly offset by an increase in the impairment unwind which resulted from the higher secured impairment charge.

Balance sheet progress

Total loans and advances to customers decreased by £5.9 billion, or 2 per cent, to £357.8 billion, compared to 31 December 2010. This was driven by reduced customer demand for new credit and existing customers continuing to reduce their personal indebtedness. The reduction in lending to customers was in part due to the repayment of unsecured debt where balances reduced by £1.7 billion, or 6 per cent. Secured balances reduced by £4.2 billion, or 1 per cent, of which £1.0 billion was a reduction in non-core mortgage balances. The proportion of mortgages on standard variable rate, or equivalent products, now stands at 52 per cent and is expected to rise only modestly during the remainder of 2011.

The UK mortgage market for both house purchase and re-mortgaging in the first half of 2011 was broadly flat compared with the first half of 2010, with gross market lending of £64.0 billion compared to £64.1 billion, respectively. Retail's gross mortgage lending was £12.9 billion in the first half of 2011. Retail's new mortgage lending continued to be focused on supporting the housing market with 70 per cent of lending being for house purchase rather than re-mortgaging. Retail remains the largest lender to first time buyers, helping over 24,000 customers buy their first home in the first half of 2011. It also continues to be an industry leader in its support for shared equity and shared ownership schemes.

During the first half of 2011 Retail continued to develop its mortgage offering to support customers. This included rolling out a new mortgage sales platform that has improved the processing of mortgage applications and significantly simplified the mortgage application process for both customers and advisors. In addition, it ensures that customer data only needs to be entered onto one system, so reducing the potential for error. We have also further developed our market-leading products including the Lend a Hand mortgage, which now allows local authorities to act as the 'helper' and enables first-time buyers to get onto the housing ladder with just a 5 per cent deposit.

Risk-weighted assets increased by £0.3 billion to £109.6 billion compared to 31 December 2010. This reflected the impact of lower lending balances being offset by the impact of a less favourable outlook for house prices compared with the end of 2010.

Total customer deposits increased by £6.7 billion, or 3 per cent, to £242.3 billion in the first six months of 2011. This increase was largely driven by strong growth in tax free cash ISA balances. Retail continues to perform well in the savings market despite the high levels of competition, with a strong stable of savings brands providing customers with an award winning range of products to meet their savings needs.

Retail has continued to invest in products and services to support our customers in better managing their finances. A great example of this is the recently launched Lloyds TSB Money Manager which is available online and gives customers an interactive way to review their spending habits and plan for the future. The Halifax ISA promise continues to deliver a clear service promise that has resonated with customers and helped support a record new business performance in the first half of 2011. Retail achieved cash ISA balance growth significantly above our share of balances outstanding.

RETAIL (continued)

	Half-year	Half-year	Change	Half-year

	to 30 June 2011	to 30 June 2010	since 30 June 2010	to 31 Dec 2010
Core	£m	£m	%	£m
Net interest income	3,959	4,380	(10)	4,464
Other income	875	823	6	760
Total income	4,834	5,203	(7)	5,224
Operating expenses	(2,218)	(2,229)	1	(2,408)
Trading surplus	2,616	2,974	(12)	2,816
Impairment	(1,052)	(1,286)	18	(1,343)
Share of results of joint ventures and associates	2	8	(75)	9
Profit before tax and fair value unwind	1,566	1,696	(8)	1,482
Fair value unwind	420	513	(18)	452
Profit before tax - core	1,986	2,209	(10)	1,934
Non-core				
Net interest income	204	256	(20)	278
Other income	9	13	(31)	11
Total income	213	269	(21)	289
Operating expenses	(3)	(4)	25	(3)
Trading surplus	210	265	(21)	286
Impairment	(121)	(49)		(69)
Share of results of joint ventures and associates	1	-		-
Profit before tax and fair value unwind	90	216	(58)	217
Fair value unwind	124	70	77	70
Profit before tax - non-core	214	286	(25)	287
Profit before tax - combined	2,200	2,495	(12)	2,221
Banking net interest margin				
Core	2.34%	2.52%		2.56%
Non-core	1.36%	1.57%		1.75%
Cost:income ratio				
Core	45.9%	42.8%		46.1%
Impairment as a % of average advances (annualised)				
Core	0.63%	0.76%		0.79%
Non-core	0.81%	0.30%		0.43%

RETAIL (continued)

Key balance sheet and other items	As at 30 June 2011	As at 31 Dec 2010	Change since 31 Dec 2010
	£bn	£bn	%
Core			

Loans and advances to customers	328.9	333.7	(1)
Customer deposits	242.3	235.6	3
Risk-weighted assets	98.0	98.0	
Non-core			
Loans and advances to customers	28.9	30.0	(4)
Customer deposits	-	-	
Risk-weighted assets	11.6	11.3	(3)

Non-core operations consist of assets that are outside of Retail's risk appetite. These broadly comprise of specialist mortgages (self-certified and sub-prime), and selected third-party branded loans and credit cards. At 30 June 2011, these activities included loans and advances to customers of £28.9 billion (31 December 2010: £30.0 billion), with risk-weighted assets of £11.6 billion (31 December 2010: £11.3 billion). The run-off of these balances continued in line with expectations. In the first half of 2011 non-core total income decreased to £213 million (compared to £269 million in the first half of 2010). The impairment charge was £121 million compared to £49 million in the first half of 2010. In addition to the reduction of non-core assets, Retail continued to implement plans to divest other retail assets and liabilities in line with the state aid obligations (Project Verde). Further detail on the shape of this business is provided on page 32 of this News Release.

WHOLESALE

Key highlights

- Profit before tax was £1,429 million compared to a profit before tax of £585 million in the first half of 2010.
  - Loss before tax and fair value unwind was £122 million, an improvement of £726 million mainly reflecting significantly decreased impairments and lower costs, offset by reduced income.
- Net interest income decreased by 11 per cent to £1,401 million. This largely reflects a lower asset balance sheet. The banking net interest margin improved as a result of the increased market value of deposits, partly offset by a lower asset margin.
- Other income decreased to £1,337 million, as targeted balance sheet reductions resulted in losses of £670 million on treasury asset sales within Corporate Markets, broadly offset by a related accelerated fair value unwind of £649 million, and a lower level of operating lease asset income in Asset Finance.
- Operating expenses decreased by 6 per cent to £1,312 million, reflecting reduced levels of operating lease depreciation and further cost savings achieved from the integration programme, partially offset by additional staff related costs in Corporate Markets and continued investment in customer facing resource and systems.
- Impairment charges decreased significantly to £1,557 million, compared to £2,801 million in the first half of 2010. The total impairment charge is 44 per cent lower than the first half of last year and continues to be driven by the HBOS heritage corporate real estate and real estate related asset portfolios, but with increased impairment on leveraged acquisition finance exposures.

- Assets decreasedby 9 per cent to £192.2 billion, compared to December 2010. This reflects the targeted reduction in the non-core balance sheet, particularly in treasury assets. However, despite gross new lending to customers continuing to meet our lending commitments, net lending to core customers (excluding reverse repos) also reduced as a result of weak demand and continued customer deleveraging.

- Customer deposits excluding repos decreased 2 per cent, since the end of the prior year, to £81.0 billion as a small increase in deposits in Corporate Markets was more than offset by a decline in more price sensitive deposits in Treasury and Trading.

- Risk-weighted assets reduced by £19.5 billion to £176.6 billion compared to December 2010, in line with the reduction on the balance sheet.

WHOLESALE(continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	1,401	1,576	(11)	1,675
Other income	1,337	1,988	(33)	1,691
Total income	2,738	3,564	(23)	3,366
Costs:				
Operating expenses	(1,312)	(1,401)	6	(1,351)
Impairment of tangible fixed assets	-	(150)		-
	(1,312)	(1,551)	15	(1,351)
Trading surplus	1,426	2,013	(29)	2,015
Impairment	(1,557)	(2,801)	44	(1,263)
Share of results of joint ventures and associates	9	(60)		(35)
(Loss) profit before tax and fair value unwind	(122)	(848)	86	717
Fair value unwind	1,551	1,433	8	1,616
Profit before tax	1,429	585		2,333
Corporate Markets	(527)	(1,212)		257
Treasury and Trading	255	259		169
Asset Finance	150	105		291
(Loss) profit before tax and fair value unwind	(122)	(848)		717
Banking net interest margin	1.64%	1.51%		1.54%
Cost:income ratio (excl. impairment of tangible fixed assets)	47.9%	39.3%		40.1%

Impairment as a % of average advances (annualised)	2.02%	3.11%	1.31%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers excl reverse repos	130.1	141.5	(8)
Reverse repos	19.7	3.1	
Loans and advances to customers	149.8	144.6	4
Loans and advances to banks	10.2	12.4	(18)
Debt securities	15.5	25.8	(40)
Available-for-sale financial assets	16.7	29.5	(43)
	192.2	212.3	(9)
Customer deposits excluding repos	81.0	82.8	(2)
Repos	4.0	10.2	
Customer deposits including repos	85.0	93.0	(9)
Risk-weighted assets	176.6	196.1	(10)

WHOLESALE (continued)

Financial performance

Profit before tax was £1,429 million compared to a profit before tax of £585 million in the first half of 2010. A reduction of £826 million in total income was more than offset by a significant decrease in the impairment charge which reduced by £1,244 million to £1,557 million, reflecting the stabilising UK economic climate.

Loss before tax and fair value unwind of £122 million improved £726 million on the loss of £848 million in the first half of 2010, primarily driven by the significant decrease in the impairment charge.

Total income decreased by £826 million, or 23 per cent, to £2,738 million, mainly driven by a 33 per cent decrease in other operating income. This was primarily a result of the £670 million loss on disposal of treasury assets, which was broadly offset by a related accelerated fair value unwind of £649 million.

Net interest income decreased by £175 million, or 11 per cent, to £1,401 million. The decrease reflects lower interest-earning asset balances in line with the Group's targeted balance sheet reduction, mainly in loans and advances to customers, debt securities and available-for-sale positions. This was offset by an increase in banking net interest margin resulting from the increased market value of deposits.

Net banking margin increased by 13 basis points to 1.64 per cent, with banking net interest income, which excludes trading activity, decreasing by £105 million, to £1,179 million primarily as a result of a reduced balance sheet. However, this income reduction was partly offset by an increase in deposit margins and income largely reflecting the higher market value of deposits and selective repricing. Asset margins decreased as the benefit of higher customer rates was offset by the increased cost of funding.

Other income decreased by £651 million, or 33 per cent, to £1,337 million, primarily reflecting the effect of the asset disposals from the Group's targeted balance sheet reduction in Corporate Markets, and a lower asset base and associated income in Asset Finance. This was partially offset by valuation gains and profits on disposals in the Equity business within Corporate Markets and the recovery of assets previously written down in Treasury and Trading.

Operating expenses decreased by £89 million, or 6 per cent, to £1,312 million primarily from a reduction in the level of operating lease depreciation in Asset Finance and a continued focus on cost management including savings attributable to the integration programme. This was partially offset by additional staff costs and continued investment in customer facing resource and systems.

The impairment charge decreased by £1,244 million to £1,557 million in the first half of 2011, reflecting a sustained decrease since the peak in the first half 2009. As a percentage of average loans and advances to customers, the impairment charge improved to 2.02 per cent in the first half of 2011 compared to 3.11 per cent in the first half of 2010. This was due to the stabilising economic environment, continued low interest rates which helped to maintain defaults at a reduced level, and the stabilisation of corporate real estate prices.

The share of results from joint ventures and associates comprised a small profit of £9 million, an improvement of £69 million, due to a lower level of impairments and share of losses than in the previous year.

Fair value unwind increased £118 million to £1,551 million, mainly due to asset disposals (including treasury asset disposals) and favourable exchange rate movements. This was partially offset by a decrease in the fair value unwind relating to HBOS loans and receivables that were acquired on acquisition, reflecting lower impairments.

WHOLESALE (continued)

Balance sheet progress
The division's asset balances (comprising loans and advances to customers and banks, debt securities and available-for-sale financial assets) reduced by £20.1 billion, or 9 per cent, to £192.2 billion, primarily reflecting deleveraging by customers and continuing active de-risking of the balance sheet by either selling down or reducing holdings in debt securities and available-for-sale positions, offset by an increase in reverse repo balances as liquidity was invested in high quality primary liquid assets on a secured basis.

Loans and advances to customers increased £5.2 billion, or 4 per cent to £149.8 billion. In Corporate Markets, balances decreased by £10.0 billion, or 8 per cent, as demand for new corporate lending and refinancing of existing facilities were more than offset by the level of maturities, reflecting a continued trend of subdued corporate lending, customer deleveraging and asset sales in non-core sectors. Available-for-sale financial asset balances reduced by £12.8 billion, or 43 per cent, to £16.7 billion and debt securities decreased by £10.3 billion, or 40 per cent, to £15.5 billion, as Corporate Markets reduced the non-core balance sheet through treasury and other asset sales or not replenishing holdings after amortisations or maturities. Loans and advances to banks decreased by £2.2 billion, or 18 per cent, as the division refocused the balance sheet.

Customer deposits excluding repos decreased by 2 per cent to £81.0 billion, due to a reduction in price sensitive customer deposits in Treasury and Trading, partially offset by an increase in deposits in Corporate Markets in line with the Group's funding strategy.

Risk-weighted assets decreased by £19.5 billion, or 10 per cent, to £176.6 billion, primarily reflecting the balance sheet reductions including treasury asset sales and the run down in other non-core asset portfolios, but also the impact of subdued corporate lending.

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WHOLESALE (continued)

Core	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	888	998	(11)	882
Other income	1,608	1,524	6	1,492
Total income	2,496	2,522	(1)	2,374
Operating expenses	(1,093)	(1,108)	1	(1,083)
Trading surplus	1,403	1,414	(1)	1,291
Impairment	(409)	(162)		(414)
Share of results of joint ventures and associates	-	3		(1)
Profit before tax and fair value unwind	994	1,255	(21)	876
Fair value unwind	10	9	11	15
Profit before tax - core	1,004	1,264	(21)	891
Non-core				
Net interest income	513	578	(11)	793
Other income	(271)	464		199
Total income	242	1,042	(77)	992
Costs:				
Operating expenses	(219)	(293)	25	(268)
Impairment of tangible fixed assets	-	(150)		-
	(219)	(443)	51	(268)
Trading surplus	23	599	(96)	724
Impairment	(1,148)	(2,639)	56	(849)
Share of results of joint ventures and associates	9	(63)		(34)
Loss before tax and fair value unwind	(1,116)	(2,103)	47	(159)
Fair value unwind	1,541	1,424	8	1,601
Profit (loss) before tax - non-core	425	(679)		1,442
(Loss) profit before tax and fair value unwind - combined	(122)	(848)	86	717
Profit before tax - combined	1,429	585		2,333
Banking net interest margin				
Core	1.86%	1.51%		1.53%
Non-core	1.36%	1.51%		1.56%
Cost:income ratio (excl. impairment of tangible fixed assets)				
Core	43.8%	43.9%		45.6%
Non-core	90.5%	28.1%		27.0%
Impairment as a % of average advances (annualised)				
Core	0.96%	0.34%		0.82%
Non-core	3.36%	6.80%		1.92%

WHOLESALE (continued)

Key balance sheet and other items Core	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers excl reverse repos	78.9	85.4	(8)
Reverse repos	19.7	3.1	
Loans and advances to customers	98.6	88.5	11
Loans and advances to banks	9.9	12.0	(18)
Debt securities	0.2	0.4	(50)
Available-for-sale financial assets	3.6	7.4	(51)
	112.3	108.3	4
Customer deposits excluding repos	78.1	78.8	(1)
Repos	4.0	10.2	(61)
Customer deposits including repos	82.1	89.0	(8)
Risk-weighted assets	106.9	112.3	(5)

Non-core	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers excl reverse repos	51.2	56.1	(9)
Reverse repos	-	-	
Loans and advances to customers	51.2	56.1	(9)
Loans and advances to banks	0.3	0.4	(25)
Debt securities	15.3	25.4	(40)
Available-for-sale financial assets	13.1	22.1	(41)
	79.9	104.0	(23)
Customer deposits excluding repos	2.9	4.0	(28)
Repos	-	-	
Customer deposits including repos	2.9	4.0	(28)
Risk-weighted assets	69.7	83.8	(17)

WHOLESALE (continued)

Core business

Core business profit before tax and fair value unwind decreased by 21 per cent to £994 million, compared to £1,255 million in the first half of 2010.

Total core income decreased by £26 million, or 1 per cent. Net interest income was £110 million, or 11 per cent lower, due to the lower asset balance sheet, partly offset by higher net banking margins from better deposit margins. Other operating income was £84 million, or 6 per cent higher, primarily reflecting the settlement of a claim associated with a sizeable financial services company failure, partly offset by lower level of client income due to subdued lending activity.

Operating expenses were £15 million, or 1 per cent lower, however impairment increased by £247 million primarily due to two significant loans being impaired.

Non-core business

Non-core consists of businesses and/or business lines that are inconsistent with Wholesale's relationship-focused strategic vision of capital and liquidity efficient growth, driven by broad and deep customer relationships and within a prudent risk framework.

Non-core loss before tax and fair value unwind improved £987 million, primarily reflecting the decrease in impairment charges year-on-year in relation to the non-core portfolios.

Non-core income decreased by £800 million, primarily reflecting the effects of asset disposals from the Group's targeted balance sheet reduction in Corporate Markets, a lower asset base in Asset Finance and associated income, and the non-core portfolio's share of higher wholesale funding costs. This was partially offset by the benefits of valuation gains and profits on disposals within the Equity business within Corporate Markets.

Non-core net interest income decreased by £65 million due to the reduced balance sheet. The banking net interest margin fell 15 basis points to 1.36 per cent as non-core asset margins reduced due to higher funding costs.

Non-core operating expenses decreased by £74 million, or 25 per cent, reflecting a reduction in the level of operating lease depreciation in Asset Finance. There was also a favourable variance of £150 million for non-core impairment of tangible fixed assets, which was incurred on assets held on the balance sheet as a result of the consolidation of certain entities over which the Group exercised control in the first half of 2010.

Non-core impairments decreased by £1,491 million, primarily reflecting the significantly lower charges in the corporate real estate and real estate related asset portfolios as the economy and related prices stabilised.

Non-core fair value unwind increased by £117 million, primarily due to the treasury asset disposals in Corporate Markets, partly offset by a reduction in fair value unwind relating to HBOS loans and receivables reflecting lower impairments.

The total level of non-core assets, which includes some other minor asset categories, decreased by £25.2 billion or 23 per cent to £84.5 billion. This primarily reflects the sale and maturity of treasury assets totalling £19.7 billion.

WHOLESALE (continued)

Corporate Markets

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

	2011	2010	2010	
	£m	£m	%	£m
Net interest income	1,076	1,170	(8)	1,324
Other income	528	1,129	(53)	885
Total income	1,604	2,299	(30)	2,209
Costs:				
Operating expenses	(697)	(691)	(1)	(727)
Impairment of tangible fixed assets	-	(150)		-
	(697)	(841)	17	(727)
Trading surplus	907	1,458	(38)	1,482
Impairment	(1,442)	(2,609)	45	(1,191)
Share of results of joint ventures and associates	8	(61)		(34)
(Loss) profit before tax and fair value unwind	(527)	(1,212)	57	257
Cost:income ratio				
(excl. impairment of tangible fixed assets)	43.5%	30.1%		32.9%
Impairment as a % of average advances (annualised)	2.00%	3.13%		1.32%

Key balance sheet items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	121.6	131.6	(8)
Customer deposits	63.0	61.3	3
Risk-weighted assets	156.7	175.5	(11)

Loss before tax and fair value unwind decreased by £685 million to £527 million, due to a significant decrease in the impairment charge, which more than offset the decrease in income. Net interest income decreased by £94 million, or 8 per cent. This reflected lower interest-earning asset balances as a result of the ongoing focus on reducing the balance sheet and also higher wholesale funding costs. Despite the increased funding costs, net interest income benefited from improved deposit margins from the increased market value of deposits.

Other income was £601 million lower, or 53 per cent, also reflecting the effects of disposals from the Group's targeted balance sheet reduction in Wholesale Markets. This was partially offset by valuation gains and profits on disposals in the Equity business.

Operating expenses were in line with prior year, which included increased costs in Wholesale Markets from continued investment in customer facing resource and systems, offset by decreases in other areas as the synergy benefits from integration are being realised.

The impairment charge decreased by £1,167 million to £1,442 million in the first half of 2011 reflecting a sustained decrease since the peak in the first half of 2009. This was due to the stabilising economic environment, low interest rates which helped to maintain defaults at reduced levels and the stabilisation of UK real estate prices.

A favourable variance of £150 million occurred on impairment of tangible fixed assets, which was incurred on assets held on the balance sheet as a result of the consolidation of certain entities over which the Group exercised control in the first half of 2010.

WHOLESALE (continued)

Treasury and Trading

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	133	188	(29)	136
Other income	241	167	44	155
Total income	374	355	5	291
Operating expenses	(119)	(96)	(24)	(122)
Profit before tax and fair value unwind	255	259	(2)	169
Cost:income ratio	31.8%	27.0%		41.9%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers1	20.7	4.1	
Customer deposits2	22.0	31.7	(31)
Risk-weighted assets	9.1	8.6	6

1 Of which reverse repos represent £19.7 billion (31 December 2010: £3.1 billion).
2 Of which repos represent £4.0 billion (31 December 2010: £10.2 billion).

Profit before tax and fair value unwind decreased by £4 million to £255 million.

Total income increased by £19 million, or 5 per cent. Income benefited primarily from the settlement of a claim which originated from losses booked in 2008 associated with a number of high profile financial services company failures, offset by lower performance in the underlying business as a result of difficult markets and reduced customer activity. Trading flows are managed with the overriding aim of providing a service to customers, whilst maintaining Treasury and Trading's conservative risk appetite.

Operating expenses increased by £23 million to £119 million reflecting the continued and controlled investment in people and systems, in particular the back office infrastructure, to support internal risk management and the growth ambitions in the larger customer franchise business. Operating costs in the first half of 2011 were marginally lower than in the second half of 2010.

WHOLESALE (continued)

Asset Finance

	Half-year		Change	Half-year

	to 30 June 2011 £m	Half-year to 30 June 2010 £m	since 30 June 2010 %	to 31 Dec 2010 £m
Net interest income	192	218	(12)	215
Other income	568	692	(18)	651
Total income	760	910	(16)	866
Operating expenses	(496)	(614)	19	(502)
Trading surplus	264	296	(11)	364
Impairment	(115)	(192)	40	(72)
Share of results of joint ventures and associates	1	1		(1)
Profit before tax and fair value unwind	150	105	43	291
Cost:income ratio	65.3%	67.5%		58.0%
Impairment as a % of average advances (annualised)	2.51%	3.20%		1.37%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	7.5	8.9	(16)
Operating lease assets	2.7	3.0	(10)
Risk-weighted assets	10.8	12.0	(10)

Profit before tax and fair value unwind was £150 million, compared to £105 million in the first half of 2010. The £45 million improvement was due to lower costs and impairment charges, which were partially offset by lower income.

Total income decreased by £150 million, or 16 per cent, to £760 million as a result of lower business volumes, including assets held under operating leases, the benefit of VAT claims settled last year and a £21 million loss on disposal of Hill Hire plc. The lower business volumes are in-line with a targeted reduction in this asset class and were partly offset by stronger margins.

Operating expenses decreased by £118 million, or 19 per cent, to £496 million. This reflected an £85 million, or 20 per cent, decrease in depreciation charges on assets held under operating leases due to lower fleet size and a year-on-year improvement in used car values. Other costs decreased by £33 million, or 18 per cent, reflecting strong cost management and savings achieved from integration.

The impairment charge decreased by £77 million to £115 million, reflecting a stabilising economic environment and an improvement in market conditions for both the retail and non-retail consumer finance businesses. The lower impairment charge has been driven by a reduction in new cases entering arrears, the reduced book size and a better mix in the credit quality of new business being written.

COMMERCIAL

Key highlights

- Profit before tax was £262 million compared to £157 million in the first half of 2010.

- Profit before tax and fair value unwind was £236 million compared to £127 million in the first half of 2010, driven by higher income and reduced impairments.

- Net interest income increased by 14 per cent to £649 million, mainly reflecting the growth in deposit balances over the period and the value of attracting and retaining working capital credit balances at attractive margins.

- Other income decreased by 4 per cent to £218 million which reflects the subdued trading activity in the early part of the year and the greater use of electronic banking facilities by customers.

- Operating expenses decreased by 2 per cent to £471 million through cost efficiency and a reducing fraud loss exposure from improvements implemented at the end of 2010 in online security.

- Impairment charges on financial assets have decreased to £160 million compared to £190 million in the first half of 2010. There has been an overall improvement in the credit quality of the portfolio and a reduction in overall defaults as the UK economy has steadied and the continuing programme of process improvements is delivering results.

- Core assets have increased by 2 per cent since the end of 2010. This reflects the pro-active promotion and continuing support of small and medium-sized businesses by Commercial through 1,500 local relationship managers operating from 500 locations throughout the UK.

- Customer deposits have also increased by 4 per cent since the end of 2010. This increase reflects the ongoing success in the recruitment and retention of customers combined with targeted support in various customer segments especially education and legal.

- Focus continues on strengthening customer relationships through deepening and understanding individual business requirements. Commercial Finance, our invoice discounting, factoring and equipment finance business, enjoyed positive net growth of circa 10 per cent compared to an industry norm of 8 per cent. We have generated in excess of 50,000 referrals for a business insurance product and have grown our foreign exchange and international payments facility for small and medium-sized businesses.

COMMERCIAL (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	649	571	14	604
Other income	218	227	(4)	230
Total income	867	798	9	834

Operating expenses	(471)	(481)	2	(511)
Trading surplus	396	317	25	323
Impairment	(160)	(190)	16	(192)
Profit before tax and fair value unwind	236	127	86	131
Fair value unwind	26	30	(13)	51
Profit before tax	262	157	67	182
Banking net interest margin	4.35%	3.82%		3.93%
Cost:income ratio	54.3%	60.3%		61.3%
Impairment as a % of average advances (annualised)	1.07%	1.28%		1.19%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	28.7	28.6	
Customer deposits	32.7	31.3	4
Risk-weighted assets	26.8	26.6	1

COMMERCIAL(continued)

Financial performance

Profit before tax was £262 million compared to a profit of £157 million for the comparable period in 2010. The improvement of £105 million was predominantly due to higher net interest income, good cost management and a reduced level of impairments as the UK economy stabilises and improves.

Total income increased by £69 million, or 9 per cent, mainly driven by a 14 per cent increase in net interest income.

Net interest income grew by 14 per cent, or £78 million, principally as a result of increased deposit balances and the market value of higher levels of working capital credit balances.

Other income reduced by 4 per cent, or £9 million, due to the growing use by customers of electronic banking facilities and other reduced cost account services.

Operating expenses remain well controlled and decreased by 2 per cent, or £10 million, primarily as a result of productivity and efficiency gains and the higher use of electronic banking coupled with the implementation of increased online fraud prevention security.

The impairment charge decreased by £30 million, or 16 per cent, due to an increase in the overall credit quality of the portfolio and the stabilisation of the UK economy and consequently an overall reduction in the level of defaults.

Balance sheet progress

Commercial's asset balances (comprising loans and advances to customers) increased by £0.1 billion since December 2010 reflecting a fall of £0.3 billion in the non-core real estate portfolio (see below) more than offset by an increase in term lending and asset-based finance of £0.4 billion where Commercial has attracted new SME customers with term lending and invoice finance requirements to switch from other providers, and has also successfully encouraged existing SME customers to invest in their businesses with financial support from us. Significant effort in promoting support has included running nearly 400 customer events in the first half of 2011.

Customer deposits increased by £1.4 billion since December 2010 reflecting the attractiveness of our savings products as well as our customers' desire to retain liquidity and be cautious about investment.

Risk-weighted assets increased by £0.2 billion to £26.8 billion since December 2010 primarily reflecting the growth in assets.

COMMERCIAL (continued)

Core	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	635	551	15	588
Other income	217	226	(4)	229
Total income	852	777	10	817
Operating expenses	(468)	(477)	2	(507)
Trading surplus	384	300	28	310
Impairment	(160)	(189)	15	(192)
Profit before tax and fair value unwind	224	111		118
Fair value unwind	26	30	(13)	51
Profit before tax - core	250	141	77	169
Non-core				
Net interest income	14	20	(30)	16
Other income	1	1		1
Total income	15	21	(29)	17
Operating expenses	(3)	(4)	25	(4)
Trading surplus	12	17	(29)	13
Impairment	-	(1)		-
Profit before tax and fair value unwind	12	16	(25)	13
Fair value unwind	-	-		-
Profit before tax - non-core	12	16	(25)	13
Profit before tax - combined	262	157	67	182
Banking net interest margin				
Core	4.50%	3.97%		4.06%
Non-core	1.76%	1.85%		1.88%
Cost:income ratio				
Core	54.9%	61.4%		62.1%
Impairment as a % of average advances (annualised)				
Core	1.14%	1.39%		1.29%

Non-core	0.00%	0.10%	0.00%

COMMERCIAL (continued)

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Core			
Loans and advances to customers	27.0	26.6	2
Customer deposits	32.4	31.0	5
Risk-weighted assets	25.0	24.5	2
Non-core			
Loans and advances to customers	1.7	2.0	(15)
Customer deposits	0.3	0.3	
Risk-weighted assets	1.8	2.1	(14)

Non-core comprises the real estate business inherited from HBOS where there is no opportunity to place the customer in a full banking relationship. At the end of June 2011 the portfolio stood at £1.7 billion of lending assets down from £2.0 billion at the end of 2010 in line with the run-down strategy for this portfolio.

WEALTH AND INTERNATIONAL

Key highlights

- Loss before tax increased to £2,080 million compared to £1,609 million in the first half of 2010.

- Loss before tax and fair value unwind increased by £411 million to £2,184 million, compared to £1,773 million in the first half of 2010, due to lower income, higher costs and a higher impairment charge in International.

- Core profit before tax and fair value unwind increased by 29 per cent to £146 million, due to higher income partly offset by higher operating expenses, principally within the International deposit business.

- In Wealth, profit before tax decreased by 11 per cent to £139 million but increased by 39 per cent to £170 million in core Wealth and in International (which is predominantly non-core) the loss before tax increased by 20 per cent to £2,323 million. Excluding non-recurring gains on sale of non-core businesses that were recognised in the first half of 2010, profit before tax and fair value unwind increased by 19 per cent.

- Net interest income decreased by 15 per cent to £509 million, reflecting lower lending volumes and a 18 basis point reduction in the banking net interest margin, partly offset by the favourable impact of foreign currency movements, particularly the Australian dollar, higher deposit balances and improving deposit margins.

- Other income increased by 4 per cent to £631 million, with foreign exchange benefits in International and increasing funds under management in the Wealth businesses, partly offset by the impact of non-recurring gains on the sale of non-core businesses in Wealth recognised in the first half of 2010.

- Operating expenses increased by 6 per cent to £792 million, due to higher regulatory costs in the Wealth businesses, investment in growth in our Wealth businesses and our International on-line deposit taking operation and the effect of stronger foreign currency rates, partly offset by benefits from cost saving initiatives across all businesses.

- The impairment charge amounted to £2,532 million, compared to £2,228 million in the first half of 2010, reflecting the continued deterioration in real estate values in Ireland and in Australasian property markets to which the Group is exposed.

- Loans and advances to customers decreased by £4.2 billion, or 8 per cent, to £51.1 billion, reflecting net repayments of £3.7 billion and additional impairment provisions in the International businesses, partly offset by foreign exchange movements of £2.0 billion.

  - Customer deposits increased by £6.1 billion, or 19 per cent, to £38.9 billion, in the main due to continued strong inflows in our Wealth and International on-line deposit business.

WEALTH AND INTERNATIONAL (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	509	596	(15)	580
Other income	631	605	4	555
Total income	1,140	1,201	(5)	1,135
Operating expenses	(792)	(744)	(6)	(792)
Trading surplus	348	457	(24)	343
Impairment	(2,532)	(2,228)	(14)	(3,760)
Share of results of joint ventures and associates	-	(2)		(6)
Loss before tax and fair value unwind	(2,184)	(1,773)	(23)	(3,423)
Fair value unwind	104	164	(37)	208
Loss before tax	(2,080)	(1,609)	(29)	(3,215)
Wealth	139	156	(11)	113
International	(2,323)	(1,929)	(20)	(3,536)
Loss before tax and fair value unwind	(2,184)	(1,773)	(23)	(3,423)

Banking net interest margin	1.47%	1.65%	1.61%
Cost:income ratio	69.5%	61.9%	69.8%
Impairment as a % of average advances (annualised)	7.89%	6.56%	11.29%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	51.1	55.3	(8)
Customer deposits	38.9	32.8	19
Total customer balances	90.0	88.1	2
Risk-weighted assets	56.4	58.7	(4)

WEALTH AND INTERNATIONAL (continued)

Financial performance

Loss before tax and fair value unwind increased by 23 per cent to £2,184 million due to lower income, higher costs and a higher impairment charge in International, predominantly in Ireland.

Total income decreased by 5 per cent to £1,140 million. Net interest income decreased by 15 per cent, reflecting lower lending balances and the increased strain of impaired lending in International, partly offset by higher deposit balances, improving deposit margins in Wealth and the impact of the stronger Australian dollar in International. Other income increased by 4 per cent, mainly due to foreign exchange benefits in International and increasing funds under management partly offset by non-recurring gains on sale of non-core businesses recognised in the first half of 2010 in Wealth.

Operating expenses increased by 6 per cent, due to increased investment in the International deposit business, the impact of the stronger Australian dollar and additional investment and regulatory costs in Wealth. Despite increased investment in Wealth, and in International deposit gathering, the cost:income ratio overall improved by 2.4 per cent in our core business.

The impairment charge increased by 14 per cent to £2,532 million; this reflects actual and anticipated further falls in the commercial real estate market in Ireland and a further decline in valuations in Australasian property markets to which the Group is exposed.

Balance sheet progress

Loans and advances to customers decreased by £4.2 billion to £51.1 billion, reflecting net repayments of £3.7 billion and additional impairment provisions in the International businesses, partly offset by foreign exchange movements of £2.0 billion.

Customer deposits increased by £6.1 billion to £38.9 billion mainly due to continued strong deposit inflows in our Wealth and International on-line deposit businesses.

WEALTH AND INTERNATIONAL (continued)

Core	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	221	158	40	182
Other income	504	503		487
Total income	725	661	10	669
Operating expenses	(565)	(531)	(6)	(578)
Trading surplus	160	130	23	91
Impairment	(15)	(16)	6	(10)
Share of results of joint ventures and associates	1	(1)		1
Profit before tax and fair value unwind	146	113	29	82
Fair value unwind	4	14	(71)	16
Profit before tax - core	150	127	18	98
Non-core				
Net interest income	288	438	(34)	398
Other income	127	102	25	68
Total income	415	540	(23)	466
Operating expenses	(227)	(213)	(7)	(214)
Trading surplus	188	327	(43)	252
Impairment	(2,517)	(2,212)	(14)	(3,750)
Share of results of joint ventures and associates	(1)	(1)		(7)
Loss before tax and fair value unwind	(2,330)	(1,886)	(24)	(3,505)
Fair value unwind	100	150	(33)	192
Loss before tax - non-core	(2,230)	(1,736)	(28)	(3,313)
Loss before tax - combined	(2,080)	(1,609)	(29)	(3,215)
Banking net interest margin				
Core	4.50%	3.05%		3.32%
Non-core	1.01%	1.44%		1.34%
Cost:income ratio				
Core	77.9%	80.3%		86.4%
Impairment as a % of average advances (annualised)				
Core	0.36%	0.39%		0.25%
Non-core	9.01%	7.45%		12.80%

WEALTH AND INTERNATIONAL (continued)

Key balance sheet and other items	As at 30 June 2011	As at 31 Dec 2010	Change since 31 Dec

			2010
	£bn	£bn	%
Core			
Loans and advances to customers	8.1	8.1	
Customer deposits	37.6	31.6	19
Risk-weighted assets	10.8	12.0	(10)
Non-core			
Loans and advances to customers	43.0	47.2	(9)
Customer deposits	1.3	1.2	8
Risk-weighted assets	45.6	46.7	(2)

Core profit before tax and fair value unwind increased by 29 per cent to £146 million, due to higher income partly offset by higher operating expenses.

Core total income increased by 10 per cent to £725 million. Net interest income increased by 40 per cent reflecting growing deposit balances and strong margin management. Other income is largely in line with the first half of 2010 at £504 million.

Core operating expenses increased by 6 per cent to £565 million, with benefits from cost saving initiatives across all core businesses more than offset by higher investment and regulatory costs in core Wealth and investment in International's on-line deposit business. Despite investment in growing the Wealth business and in marketing costs associated with International on-line deposit gathering (which now has balances of over €10 billion), the cost:income ratio overall improved by 2.4 per cent.

Consistent with the division's strategic approach to maximising value in the medium term, a number of businesses are considered to be non-core, predominantly within International. In 2010, the Group completed the merger of the business carried on by Bank of Scotland (Ireland) Limited with Bank of Scotland plc, to support the efficient run-down of the Irish portfolio. In Australia, the Corporate and Asset Finance businesses are of scale and profitable, operating in a strong and developed economy that has good growth prospects. These ongoing businesses will continue to be managed for maximum value whilst maintaining a tight focus on running off the legacy commercial property exposures.

Non-core loss before tax and fair value unwind increased by 24 per cent to £2,330 million, due to lower income and higher International impairment charges predominantly in Ireland.

Non-core total income decreased by 23 per cent to £415 million, reflecting lower lending volumes due to the focus on rightsizing the International balance sheet partly offset by foreign exchange gains.

WEALTH AND INTERNATIONAL (continued)

Wealth

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

	to 30 June 2011 £m	to 30 June 2010 £m	30 June 2010 %	2010 £m
Net interest income	181	161	12	184
Other income	500	539	(7)	479
Total income	681	700	(3)	663
Operating expenses	(513)	(520)	1	(527)
Trading surplus	168	180	(7)	136
Impairment	(29)	(23)	(26)	(23)
Share of results of joint ventures and associates	-	(1)		-
Profit before tax and fair value unwind	139	156	(11)	113
Cost:income ratio	75.3%	74.3%		79.5%
Impairment as a % of average advances (annualised)	0.63%	0.49%		0.47%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	9.0	9.1	(1)
Customer deposits	27.3	26.8	2
Risk-weighted assets	9.3	10.4	(11)

Profit before tax and fair value unwind decreased by 11 per cent to £139 million mainly due to lower income. Excluding non-recurring gains on sale of non-core businesses which were recognised in the first half of 2010, profit before tax and fair value unwind increased by 19 per cent.

Total income decreased by 3 per cent to £681 million. Excluding non-recurring gains on sale, which were recognised in the first half of 2010, income increased by 3 per cent. Net interest income increased by 12 per cent, reflecting higher deposit balances and improving deposit margins. Other income decreased by 7 per cent, mainly due to non-recurring gains on sale of non-core businesses recognised in the first half of 2010 (excluding these gains, income was in line with the first half of 2010).

Operating expenses decreased by 1 per cent, with benefits from cost saving initiatives partly offset by increased regulatory costs.

The impairment charge increased by 26 per cent reflecting increased impairment losses on the non-core portfolio.

WEALTH AND INTERNATIONAL (continued)

Funds under management

	As at 30 June	As at 30 June	As at 31 Dec

	2011 £bn	2010 £bn	2010 £bn
Scottish Widows Investment Partnership (SWIP)			
Internal	120.7	110.9	118.2
External	26.7	25.5	28.0
	147.4	136.4	146.2
Other Wealth:			
St James's Place	29.1	22.4	27.0
Invista Real Estate	2.5	5.4	5.3
Private and International Banking	14.3	14.3	13.5
Closing funds under management	193.3	178.5	192.0

		Half-year to 30 June 2011 £bn	Half-year to 30 June 2010 £bn	Half-year to 31 Dec 2010 £bn
Opening funds under management		192.0	184.1	178.5
Inflows:				
SWIP	- internal	1.0	1.1	0.9
	- external	0.7	2.0	6.9
Other		3.8	3.7	3.0
		5.5	6.8	10.8
Outflows:				
SWIP	- internal	(4.4)	(0.5)	(5.1)
	- external	(1.8)	(6.6)	(6.7)
Other		(2.1)	(2.1)	(3.0)
		(8.3)	(9.2)	(14.8)
Investment return, expenses and commission		4.1	(2.5)	17.6
Net operating increase (decrease) in funds		1.3	(4.9)	13.6
Sale of Bank of Scotland Portfolio Management Service		-	(0.7)	(0.1)
Closing funds under management		193.3	178.5	192.0

Funds under management of £193.3 billion increased by £1.3 billion. Net outflows of £8.3 billion reflect withdrawals from insurance funds impacting SWIP, partially offset by strong net inflows in St. James's Place plc and Private Banking. Increases in global equity values increased funds under management by a further £4.1 billion.

WEALTH AND INTERNATIONAL (continued)

International

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	328	435	(25)	396
Other income	131	66	98	76

Total income	459	501	(8)	472
Operating expenses	(279)	(224)	(25)	(265)
Trading surplus	180	277	(35)	207
Impairment	(2,503)	(2,205)	(14)	(3,737)
Share of results of joint ventures and associates	-	(1)		(6)
Loss before tax and fair value unwind	(2,323)	(1,929)	(20)	(3,536)
Cost:income ratio	60.8%	44.7%		56.1%
Impairment as a % of average advances (annualised)	9.09%	7.54%		13.13%

Key balance sheet and other items	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change since 31 Dec 2010 %
Loans and advances to customers	42.1	46.2	(9)
Customer deposits	11.6	6.0	93
Risk-weighted assets	47.1	48.3	(2)

Loss before tax and fair value unwind increased by £394 million to £2,323 million mainly as a result of a higher impairment charge, reflecting an increase of £222 million in Ireland and £132 million in Australia.

Total income decreased by 8 per cent, but was 18 per cent lower in constant currency, reflecting lower interest-earning assets and the increased strain of higher impaired assets.

Operating expenses increased by 25 per cent in both actual and constant currency terms, reflecting the continued development of International's on-line deposit business partly offset by cost saving initiatives across the International business.

The impairment charge and loans and advances to customers are summarised by key geography in the following table.

WEALTH AND INTERNATIONAL (continued)

International (continued)

	Impairment charges			Loans and advances to customers	
	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn
Ireland	1,779	1,557	2,707	17.7	19.6
Australia	586	454	908	10.6	12.3
Wholesale Europe	111	145	65	6.5	6.9
Latin America/Middle East	23	43	54	0.4	0.6

Netherlands	4	6	3	6.9	6.8
	2,503	2,205	3,737	42.1	46.2

The impairment charge increased by £298 million, or 14 per cent, to £2,503 million due to increased impairment charges in Ireland, reflecting actual and anticipated further falls in the commercial real estate market in Ireland.

Balance sheet progress

Loans and advances to customers decreased by £4.1 billion or 9 per cent, to £42.1 billion due to net repayments of £3.7 billion across all businesses and further impairment provisions, partly offset by an increase due to foreign exchange movements of £2.0 billion. The division is focused on de-risking and right-sizing the balance sheet, focusing on key Group relationships, as well as reducing concentrations in Commercial Real Estate.

Customer deposits increased by £5.6 billion, or 93 per cent, to £11.6 billion driven by continued strong performance in our International on-line deposit business.

INSURANCE

Key highlights

- Profit before tax increased by 16 per cent to £543 million, compared to £469 million in the first half of 2010.

- Profit before tax and fair value unwind increased by 15 per cent to £564 million, although the first half of 2010 included a non-recurring charge of £70 million in respect of the Group's decision to cease writing new payment protection insurance (PPI) business. Excluding this charge, profit before tax and fair value unwind was in line with the first half of 2010.

- Total income, net of insurance claims, increased by £56 million to £979 million. This reflects the non-recurrence of the £70 million charge as detailed above, lower PPI related income, partially offset by the continued change in mix within Life, Pensions and Investments UK (LP&I UK) towards more profitable protection business and improved claims experience within General Insurance (GI).

- Operating expenses decreased by 2 per cent or £8 million to £415 milliondue mainly to a continued focus on cost management and delivery of integration synergies.

- LP&I UK margin increased to 4.2 per cent from 3.5 per cent in 2010. The improved margin reflects the continued focus on value and the strategic choices made in respect of product and channel propositions, in particular the higher proportion of protection business now sold. The Internal Rate of Return (IRR) on new business has continued to increase in the first half of 2011 and is in excess of 16 per cent.

- LP&I UK sales of £5,595 million (PVNBP) reduced by 9 per cent, partly reflecting the continuing change in mix away from savings products towards more profitable protection business, following the launch of our integrated bancassurance proposition in June 2010. Sales through our Intermediary channel have increased by 17 per cent to £3,407 million reflecting strong sales of Corporate Pensions.

- General Insurance profits increased by 10 per cent to £214 million primarily due to lower unemployment and freeze claims year-on-year after taking account of continuing lower income resulting from the Group ceasing to write new PPI business in 2010.

- Capital management initiatives in 2011 have resulted in £2.3 billion mitigation of the potential impact of Basel 3. This includes capital restructuring within the business that occurred in July 2011 which reduced the Group's estimated total core tier 1 impact of Basel 3 by just over £2 billion.

INSURANCE (continued)

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	(142)	(136)	(4)	(127)
Other income	1,319	1,320		1,494
Total income	1,177	1,184	(1)	1,367
Insurance claims	(198)	(261)	24	(281)
Total income, net of insurance claims	979	923	6	1,086
Operating expenses	(415)	(423)	2	(431)
Share of results of joint ventures and associates	-	(10)		-
Profit before tax and fair value unwind	564	490	15	655
Fair value unwind	(21)	(21)		(22)
Profit before tax	543	469	16	633
Profit before tax and fair value unwind by business unit				
Life, Pensions and Investments:				
UK business	347	273	27	410
European business	10	19	(47)	91
General Insurance	214	195	10	177
Other1	(7)	3		(23)
Profit before tax and fair value unwind	564	490	15	655
EEV new business margin	4.1%	3.4%		3.7%

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

INSURANCE(continued)

Financial performance

Profit before tax and fair value unwind increased by 15 per cent to £564 million, although the first half of 2010 included a non-recurring charge of £70 million in respect of the Group's decision to cease writing new PPI business. Excluding this charge profit before tax and fair value unwind is in line with the first half of 2010.

Total income, net of insurance claims, increased by £56 million to £979 million which reflects the non-recurrence of the £70 million charge as detailed above, lower PPI related income, partially offset by the continued change in mix within LP&I UK towards more profitable protection business, and improved claims experience within GI.

The continued focus on cost management and delivery of integration synergies resulted in a decrease in operating expenses.

Capital management and operational efficiency

Following the significant work undertaken in 2010 to optimise the Insurance division's contribution to Group capital, this work has remained a major focus during 2011. Capital management initiatives in 2011 have resulted in £2.3 billion mitigation of the potential impact of Basel 3. This includes capital restructuring within the business that occurred in July 2011 which reduced the Group's estimated total core tier 1 impact of Basel 3 by just over £2 billion, bringing the total expected mitigation to £4.6 billion since the start of 2010. The Insurance division remains well capitalised as assessed using the Insurance Groups Directive (IGD) regulatory measure of surplus capital. The division is progressing well with its implementation of Solvency II requirements.

The Insurance division continues to focus on cost reduction with operating expenses decreasing by 2 per cent in the first half of 2011. Efficiencies have been achieved without compromising the quality of customer service and customer satisfaction scores have remained robust across the division.

In July 2011 all the legal entities in the Insurance division were brought under one common holding company to create a single insurance group.

INSURANCE (continued)

Life, Pensions and Investments

UK business

		Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income		(123)	(116)	(6)	(111)
Other income		727	645	13	763
Total income		604	529	14	652
Operating expenses		(257)	(256)		(242)
Profit before tax and fair value unwind		347	273	27	410
Profit before tax and fair value unwind by business unit					
New business profit	- insurance business1	201	166	21	166
	- investment business1	(33)	(34)	3	(31)
Total new business profit		168	132	27	135
Existing business profit		178	234	(24)	230
Experience and assumption changes		1	(93)		45
Profit before tax and fair value unwind		347	273	27	410

EEV new business margin (UK)	4.2%	3.5%		4.0%
Life, Pensions and Investments sales (PVNBP)	5,595	6,151	(9)	4,165

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.

INSURANCE (continued)

Life, Pensions and Investments UK (LP&I UK) delivered profit growth, before tax and fair value unwind, of £74 million, or 27 per cent, although the first half of 2010 included a non-recurring £70 million charge from the Group's decision to cease writing new PPI business. Excluding this charge, profit before tax and fair value unwind increased by £4 million or 1 per cent.

Total new business profit increased by £36 million, or 27 per cent, to £168 million. The increase is primarily attributable to the focus on value over volume initiated as part of the post-integration strategy. The integration of the intermediary sales forces in 2009, including the repositioning of the product set, is now resulting in strong Corporate Pensions sales which have increased by 62 per cent on a PVNBP basis in the period. The launch of the integrated bancassurance proposition in June 2010 has resulted in the continuing change in mix within the bancassurance channel away from savings products towards more profitable protection business.

LP&I UK margin on an EEV basis increased to 4.2 per cent in the first half of 2011 from 3.5 per cent in the first half of 2010. The improved margin reflects the strategic choices made in respect of product and channel propositions combined with a continued focus on value across the business. The IRR on new business has continued to increase in the first half of 2011 and is in excess of 16 per cent.

Existing business profit decreased by £56 million, or 24 per cent, to £178 million. The decrease predominantly reflects the impact of the Group's decision to cease writing new PPI business in the second half of 2010, a reduction in the assumed rate of return, and a lower volume of shareholder net assets earning returns as a result of capital repatriation initiatives in 2010.

The charge in respect of experience and assumption changes reduced from a charge of £93 million in the first half of 2010 to a credit of £1 million in the first half of 2011. The reduction mainly reflects the absence of the £70 million charge in 2010 from the Group's decision to cease writing new PPI business. The absence of the 2010 charge was partially offset by a degree of adverse short-term persistency experience in the period.

The capital positions of the UK life insurance companies within the Insurance division remain robust. The estimated Insurance Groups Directive (IGD) capital surplus for the Scottish Widows insurance group was £1.2 billion (31 December 2010: £1.3 billion), and the estimated IGD capital surplus for the HBOS insurance group was £1.7 billion (31 December 2010: £1.6 billion).

European business

Profit before tax decreased by £9 million, 47 per cent, to £10 million. The reduction was driven largely by non-recurring benefits from a modelling change in the first half of 2010.

Although sales (PVNBP) have decreased by 7 per cent from first half of 2010, the campaign 'Heidelberger Leben Goes Mainstream Market' which was launched in April 2010, and which aims to position HLE as a key provider for independent brokers, resulted in a doubling of sales in this segment in the first half of the year compared to the first half of 2010.

INSURANCE (continued)

New business

New business margins have improved from 3.4 per cent in the first half of 2010 to 4.1 per cent in the half-year to 30 June 2011. Sales (PVNBP) reduced by 9 per cent to £5,763 million. These outcomes largely reflect the continuing focus of the business on value, and a change in mix away from large single premium savings products to lower premium, higher margin, protection business, and resulted in total new business profit within LP&I UKincreasing by £36 million, or 27 per cent to £168 million.

In the bancassurance channel the reduction reflects a change in mix away from savings products towards more profitable protection business. Sales of OEICs were further adversely affected by a reduction in the volume of capital protected product sales. However, sales of protection products increased by 33 per cent and the new business margin has increased.

Within the intermediary channel the increase of £474 million, or 15 per cent, mainly reflects strong sales of corporate pensions in LP&I UK.

The direct channel, although relatively small at this time, is performing well and is being developed for future growth.

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

			Half-year to 30 June 2011			Half-year to 30 June 2010	Change since 30 June 2010	Half-year to 31 Dec 2010
Analysis by product	UK	Europe	Total	UK	Europe	Total		Total
	£m	£m	£m	£m	£m	£m	%	£m
Protection	376	18	394	280	16	296	33	334
Payment protection	11	-	11	54	-	54	(80)	16
Savings and investments	633	99	732	925	112	1,037	(29)	895
Individual pensions	780	51	831	942	52	994	(16)	753
Corporate and other pensions	2,350	-	2,350	1,437	-	1,437	64	1,313
Retirement income	394	-	394	536	-	536	(26)	353
Managed fund business	58	-	58	70	-	70	(17)	107
Life and pensions	4,602	168	4,770	4,244	180	4,424	8	3,771

OEICs	993	-	993	1,907	-	1,907	(48)	726
Total	5,595	168	5,763	6,151	180	6,331	(9)	4,497
Analysis by channel								
Bancassurance	1,850	-	1,850	2,956	-	2,956	(37)	1,476
Intermediary	3,407	168	3,575	2,921	180	3,101	15	2,776
Direct	338	-	338	274	-	274	23	245
Total	5,595	168	5,763	6,151	180	6,331	(9)	4,497

INSURANCE (continued)

Funds under management

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

	Half-year to 30 June 2011 £bn	Half-year to 30 June 2010 £bn	Half-year to 31 Dec 2010 £bn
Opening funds under management	133.1	122.1	123.2
UK business			
Premiums	5.6	6.3	4.9
Claims and surrenders	(7.5)	(8.1)	(6.8)
Net outflow of business	(1.9)	(1.8)	(1.9)
Investment return, expenses and commission	2.3	(0.6)	11.1
Other movements1	-	4.1	0.2
Net movement	0.4	1.7	9.4
European business			
Net movement	0.1	(0.1)	0.5
Dividends and capital repatriation	(0.3)	(0.5)	-
Closing funds under management	133.3	123.2	133.1
Managed by the Group	107.6	103.4	109.3
Managed by third parties	25.7	19.8	23.8
Closing funds under management	133.3	123.2	133.1

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

INSURANCE (continued)

General Insurance

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change %	Half-year to 31 Dec 2010 £m
Home insurance				
Underwriting income (net of reinsurance)	449	455	(1)	467
Commission receivable	38	35	9	40
Commission payable	(67)	(70)	4	(65)
	420	420		442
Payment protection insurance				
Underwriting income1	185	292	(37)	252
Commission receivable	38	(23)		50
Commission payable	(152)	(134)	(13)	(184)
	71	135	(47)	118
Other				
Underwriting income (net of reinsurance)	2	3	(33)	3
Commission receivable	13	22	(41)	28
Commission payable	(2)	(9)	78	(6)
Other (including investment income)	4	(9)		(25)
	17	7		-
Net operating income	508	562	(10)	560
Claims paid on insurance contracts (net of reinsurance)	(198)	(261)	24	(281)
Operating income, net of claims	310	301	3	279
Operating expenses	(96)	(106)	9	(102)
Profit before tax and fair value unwind	214	195	10	177
Combined ratio	73%	77%		80%

1 The Group ceased writing new PPI business on 23 July 2010. Underwriting income therefore relates primarily to existing business.

Profit before tax and fair value unwind from General Insurance increased by 10 per cent to £214 million. The increase was primarily due to improved unemployment and freeze claims period-on-period, after taking account of continuing lower income as a result of the Group ceasing to write new PPI business on 23 July 2010.

Total income for home insurance was in line with the first half of 2010 at £420 million and reflects the maturity and competitiveness of the market.

Reduced claims of £198 million, 24 per cent lower than in the first half of 2010, mainly reflect lower unemployment claims combined with favourable experience on the home book as the freeze events in January 2011 were less severe than those of January 2010. Claims continue to be positively impacted by a reduction in the size of the book which has resulted in lower claims overall.

Operating expenses decreased by £10 million, or 9 per cent, to £96 million primarily as a result of the continuing delivery of integration savings and a continued focus on cost management.

INSURANCE (continued)

Core	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Net interest income	(148)	(141)	(5)	(133)
Other income	1,282	1,287		1,363
Total income	1,134	1,146		1,230
Insurance claims	(198)	(261)	24	(281)
Total income, net of insurance claims	936	885	6	949
Operating expenses	(395)	(410)	4	(403)
Share of results of joint ventures and associates	-	(10)		-
Profit before tax and fair value unwind	541	465	16	546
Fair value unwind	(21)	(21)		(22)
Profit before tax - core	520	444	17	524
Non-core				
Net interest income	6	5	20	6
Other income	37	33	12	131
Total income	43	38	13	137
Insurance claims	-	-		-
Total income, net of insurance claims	43	38	13	137
Operating expenses	(20)	(13)	(54)	(28)
Share of results of joint ventures and associates	-	-		-
Profit before tax and fair value unwind	23	25	(8)	109
Fair value unwind	-	-		-
Profit before tax - non-core	23	25	(8)	109
Profit before tax - combined	543	469	16	633

The core focus of Insurance division continues to be the UK market. In addition we have a limited presence in Europe which, despite not being subject to further significant investment, will continue to focus on meeting the needs of customers.

GROUP OPERATIONS

	Half-year to 30 June 2011 £m	Half-year to 30 June 20101 £m	Change since 30 June 2010 %	Half-year to 31 Dec 20101 £m
Net interest income	(29)	(36)	19	(36)
Other income	23	15	53	34
Total income	(6)	(21)	71	(2)

Direct costs:				
Information technology	(551)	(609)	10	(598)
Operations	(303)	(319)	5	(319)
Property	(467)	(486)	4	(483)
Procurement	(28)	(30)	7	(29)
Support functions	(48)	(52)	8	(56)
	(1,397)	(1,496)	7	(1,485)
Result before recharges to divisions	(1,403)	(1,517)	8	(1,487)
Total net recharges to divisions	1,341	1,460	(8)	1,478
Share of results of joint ventures and associates	-	1		2
Loss before tax	(62)	(56)	(11)	(7)

1 2010 comparative figures have been amended to reflect the impact of centralising operations across the Group as part of the integration programme.

Financial performance
2011 direct costs decreased by £99 million, or 7 per cent, to £1,397 million reflecting the continued focus on cost management and the delivery of integration synergy savings.

Information Technology costs decreased by 10 per cent, with integration savings offsetting inflationary rises.

Operations costs decreased by 5 per cent, through the continuing rationalisation of our major Operations functions.

Group Property costs decreased by 4 per cent, with the continuing consolidation of the heritage property portfolios delivering further integration benefits.

Procurement costs decreased by 7 per cent, reflecting the impact of negotiated lower third party costs on centrally managed contracts. In addition, Procurement has helped to deliver Group-wide synergies.

CENTRAL ITEMS

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m
Net interest expense	(173)	(296)	(527)
Other income	(414)	840	(442)
Total income	(587)	544	(969)
Operating expenses	(65)	(117)	10
Trading surplus	(652)	427	(959)
Share of results of joint ventures and associates	-	1	1
(Loss) profit before tax and fair value unwind	(652)	428	(958)
Fair value unwind	(536)	(866)	(580)
Loss before tax	(1,188)	(438)	(1,538)

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

Net interest expense improved by £123 million to £173 million. This improvement came primarily from other interest rate risk management activities in the banking book and a lower unwind expense from terminated hedge relationships, offset by an increase in unrecovered wholesale funding costs.

Other income decreased by £1,254 million to £(414) million. Liability management gains of £423 million arose on transactions undertaken in 2010 as part of the Group's management of capital, which exchanged certain debt securities for ordinary shares or other debt instruments. There were no comparable transactions in 2011. In addition, there was a £428 million adverse change in the mark-to-market movement arising from the equity conversion feature of the Group's Enhanced Capital Notes, along with a £497 million adverse movement within Banking Volatility.

Operating expenses reduced by £52 million to £65 million primarily due to lower pension costs held centrally.

Fair value unwind reduced by £330 million to £(536) million primarily due to the effect of liability management transactions and deal maturities leading to a reduced amortisation rate.

ADDITIONAL INFORMATION ON A COMBINED BUSINESSES BASIS

1. Basis of preparation of combined businesses information

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

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

  - the amortisation of purchased intangible assets has been excluded; and
  - the unwind of acquisition-related fair value adjustments is shown as one line in the combined businesses income statement.

- In order to better present the business performance the following items, not related to acquisition accounting, have also been excluded:

  - integration costs;
  - insurance and policyholder interests volatility;
  - curtailment gains and losses in respect of the Group's defined benefit pension schemes;
  - the customer goodwill payments provision;
  - the payment protection insurance provision;
  - sale costs in respect of the EU mandated retail business disposal (Project Verde); and

  loss on disposal of businesses.

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

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

Half-year to 30 June 2011	Lloyds Banking Group statutory £m	Removal of: Acquisition related items1 £m	Volatility arising in insurance businesses £m	Insurance gross up £m	Payment protection insurance provision £m	Fair value unwind £m	Combined businesses £m
Net interest income	5,989	-	(10)	102	-	297	6,378
Other income	10,214	-	187	(5,332)	-	(1,071)	3,998
Total income	16,203	-	177	(5,230)	-	(774)	10,376
Insurance claims	(5,349)	-	-	5,151	-	-	(198)
Total income, net of insurance claims	10,854	-	177	(79)	-	(774)	10,178
Operating expenses	(9,628)	978	-	79	3,200	39	(5,332)
Trading surplus (deficit)	1,226	978	177	-	3,200	(735)	4,846
Impairment	(4,491)	-	-	-	-	(931)	(5,422)
Share of results of joint ventures and associates	14	-	-	-	-	(2)	12
Fair value unwind		-	-	-	-	1,668	1,668
(Loss) profit before tax	(3,251)	978	177	-	3,200	-	1,104

1 Comprises integration costs (£642 million) and the amortisation of purchased intangibles (£289 million) and EU mandated retail business disposal costs (£47 million).

Half-year to 30 June 2010	Lloyds Banking Group statutory	Removal of: Acquisition related items including pension curtailment	Volatility arising in insurance businesses	Insurance gross up	Fair value unwind	Combined businesses

		gain1				
	£m	£m	£m	£m	£m	£m
Net interest income	7,038	-	11	(321)	183	6,911
Other income	8,742	-	188	(2,686)	(413)	5,831
Total income	15,780	-	199	(3,007)	(230)	12,742
Insurance claims	(3,189)	-	-	2,926	2	(261)
Total income, net of insurance claims	12,591	-	199	(81)	(228)	12,481
Costs:						
Operating expenses	(5,609)	56	-	81	37	(5,435)
Impairment of tangible fixed assets	(202)	52	-	-	-	(150)
	(5,811)	108	-	81	37	(5,585)
Trading surplus (deficit)	6,780	108	199	-	(191)	6,896
Impairment	(5,423)	-	-	-	(1,131)	(6,554)
Share of results of joint ventures and associates	(61)	-	-	-	(1)	(62)
Fair value unwind		-	-	-	1,323	1,323
Profit before tax	1,296	108	199	-	-	1,603

1 Comprises integration costs (£804 million), the amortisation of purchased intangibles (£323 million) and the pension curtailment gain (£1,019 million).

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

		Removal of:					
Half-year to 31 Dec 2010	Lloyds Banking Group statutory £m	Acquisition related items including pension curtailment loss1 £m	Volatility arising in insurance businesses £m	Insurance gross up £m	Customer goodwill payments provision and loss on disposal of businesses £m	Fair value unwind £m	Combined businesses £m
Net interest income	5,508	-	15	1,270	-	118	6,911
Other income	22,179	-	(520)	(16,476)	-	(850)	4,333
Total income	27,687	-	(505)	(15,206)	-	(732)	11,244
Insurance claims	(15,322)	-	-	15,041	-	-	(281)
	12,365	-	(505)	(165)	-	(732)	10,963

Total income, net of insurance claims							
Operating expenses	(7,459)	1,264	-	165	500	37	(5,493)
Trading surplus (deficit)	4,906	1,264	(505)	-	500	(695)	5,470
Impairment	(5,529)	-	-	-	-	(1,098)	(6,627)
Share of results of joint ventures and associates	(27)	-	-	-	-	(2)	(29)
Loss on disposal of businesses	(365)	-	-	-	365	-	-
Fair value unwind		-	-	-	-	1,795	1,795
(Loss) profit before tax	(1,015)	1,264	(505)	-	865	-	609

1 Comprises integration costs (£849 million), the amortisation of purchased intangibles (£306 million) and the pension curtailment loss (£109 million).

2. Banking net interest margin

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m
Banking net interest margin			
Banking net interest income	6,211	6,646	6,740
Average interest-earning assets	604,804	644,701	630,190
Average interest-bearing liabilities	367,049	347,402	357,913
Banking net interest margin	2.07%	2.08%	2.12%
Banking asset margin	1.43%	1.55%	1.57%
Banking liability margin	1.05%	0.98%	0.97%
Core			
Banking net interest margin	2.35%	2.28%	2.33%
Banking net interest income	5,292	5,392	5,503
Non-core			
Banking net interest margin	1.23%	1.50%	1.52%

Banking net interest income	919	1,254	1,237

Banking net interest income is analysed for asset and liability margins based on interest earned and paid on average assets and average liabilities respectively, adjusted for Funds Transfer Pricing, which prices intra-group funding and liquidity. Centrally held wholesale funding costs and related items are included in the Group banking asset margin.

Average interest-earning assets, which are calculated gross of related impairment allowances, and average interest-bearing liabilities relate solely to customer and product balances in the banking businesses on which interest is earned or paid. Funding and capital balances including debt securities in issue, subordinated debt, repos and shareholders' equity are excluded from the calculation of average interest-bearing liabilities. However, the cost of funding these balances allocated to the banking businesses is included in banking net interest income.

A reconciliation of banking net interest income to Group net interest income showing the items that are excluded in determining banking net interest income follows:

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m
Banking net interest income - combined businesses	6,211	6,646	6,740
Insurance division	(142)	(136)	(127)
Other net interest income (including trading activity)	309	401	298
Group net interest income - combined businesses	6,378	6,911	6,911
Fair value unwind	(297)	(183)	(118)
Insurance gross up	(102)	321	(1,270)
Volatility arising in insurance businesses	10	(11)	(15)
Group net interest income - statutory	5,989	7,038	5,508

3. Integration costs and benefits

The Group is on schedule to substantially complete the integration programme in the autumn of this year, and to deliver run-rate cost synergies and other operating efficiencies of £2 billion per annum from the programme by the end of 2011.

The sustainable run-rate synergies achieved as at 30 June 2011 totalled £1,750 million, excluding a number of one-off savings. The table below analyses the run-rate synergies as at 30 June 2011 by division and the 2011 target run-rate of £2 billion.

	Synergy run-rate as at 30 June 2011 £m	2011 Allocation of Group Operations run-rate to divisions £m	Run-rate by market facing division £m	Target run-rate by market facing division £m

Retail	319	346	665	867
Wholesale and Commercial	293	197	490	532
Wealth and International	263	30	293	242
Insurance	179	52	231	239
Group Operations	657	(657)	-	-
Central items	39	32	71	120
Total	1,750	-	1,750	2,000

Cost synergies continue to be delivered through the integration of HBOS operations, processes and IT systems. These synergies arise through procurement; property; IT cost savings and job reductions, of which 28,000 have been announced to date.

A key final step to completing the programme is the migration of HBOS retail and commercial customer accounts to the Lloyds TSB IT platform. This significant programme is now in the final stages of testing and is expected to be completed in the autumn. The completion of integration moves the Group to a single platform which is a key enabler for many of the transformational initiatives announced as part of the Strategic Review at the end of June 2011.

Integration costs of £642 million were incurred in the half-year and have been excluded from the combined businesses results. This brings the total integration costs since the HBOS acquisition to £3,391 million.

4. Impairment charge

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Half-year to 31 Dec 2010 £m
Retail:			
Secured	295	53	239
Unsecured	878	1,282	1,173
Total Retail	1,173	1,335	1,412
Wholesale	1,509	2,748	1,107
Commercial	159	189	182
Wealth and International	2,528	2,227	3,758
Total impairment losses on loans and advances to customers	5,369	6,499	6,459
Loans and advances to banks	-	(6)	(7)
Debt securities classified as loans and receivables	17	15	42
Available-for-sale financial assets	32	49	66
Other credit risk provisions	4	(3)	67
Total impairment charge	5,422	6,554	6,627
Charge for impairment losses on loans and advances to customers as % of average lending (annualised):			
Retail:			
Secured	0.18%	0.03%	0.14%
Unsecured	6.46%	8.27%	7.94%
Total Retail	0.65%	0.72%	0.76%
Wholesale	2.02%	3.11%	1.31%
Commercial	1.07%	1.28%	1.19%
Wealth and International	7.89%	6.56%	11.29%

Total	1.77%	2.01%	2.02%
Impairment charge:			
Core	1,636	1,653	1,959
Non-core	3,786	4,901	4,668
Total impairment charge	5,422	6,554	6,627
Charge for impairment losses on loans and advances to customers as % of average lending (annualised):			
Core	0.72%	0.70%	0.81%
Non-core	4.87%	5.68%	5.41%
Total	1.77%	2.01%	2.02%

5. Volatility arising in insurance businesses

The Group's statutory result is affected by insurance volatility, caused by movements in financial markets, and policyholder interests volatility, which primarily reflects the gross up of policyholder tax included in the Group's tax charge.

In the first half of 2011 the Group's statutory loss before tax included negative insurance and policyholder interests volatility totalling £177 million compared to negative volatility of £199 million in the first half of 2010.

Volatility comprises the following:

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m
Insurance volatility	(69)	(162)
Policyholder interests volatility1	(106)	(91)
Total volatility	(175)	(253)
Insurance hedging arrangements	(2)	54
Total	(177)	(199)

1 Includes volatility relating to the Group's interest in St James's Place.

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 Group, 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 expected sterling 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:

United Kingdom (Sterling)	2011	2010	2009
	%	%	%
Gilt yields (gross)	3.99	4.45	3.74
Equity returns (gross)	6.99	7.45	6.74
Dividend yield	3.00	3.00	3.00
Property return (gross)	6.99	7.45	6.74
Corporate bonds in unit-linked and with-profit funds (gross)	4.59	5.05	4.34
Fixed interest investments backing annuity liabilities (gross)	4.78	5.30	5.72

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 the With Profits Funds, the value of the in-force business and the value of shareholders' funds.

5. Volatility arising in insurance businesses (continued)

The negative insurance volatility during the six months ended 30 June 2011 in the Insurance division was £69 million, primarily reflecting lower cash returns compared to long-term expectations. The more adverse charge in the first half of 2010 was primarily driven by a deterioration in equity markets which has not been experienced in the current period.

Group hedging arrangements

To protect against further deterioration in equity market conditions, and the consequent negative impact on the value of in-force business on the Group balance sheet, the Group purchased put option contracts in 2010, financed by selling some upside potential from equity market movements. These expired on 21 January 2011. The charge for these options was £4 million. New protection against significant market falls was acquired in January 2011 to replace the expired contracts. There was no initial cost associated with these hedging arrangements. On a mark-to-market valuation basis a gain of £2 million was recognised in relation to the new contracts in 2011. The 2011 option contracts expire on 20 January 2012.

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, pensions and investments business. In order to provide a clearer representation of the performance of the business, and consistent with the way in which it is managed, 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.

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 2011, the statutory results before tax in both the Insurance and Wealth and International divisions included a charge to other income which relates to policyholder interests volatility totalling £106 million (half-year to 30 June 2010: £91 million charge). This charge included the impact of deferred tax asset impairments due to less optimistic economic forecasts and changes in expected policyholder tax provisions. Policyholder tax liabilities decreased during the first half of 2011 and led to a tax credit during the period.

6. Number of employees (full-time equivalent)

	As at 30 June 2011	As at 31 Dec 2010
Retail	54,714	53,839
Wholesale	11,376	12,067
Commercial	6,110	6,034
Wealth and International	8,307	8,348
Insurance	9,433	9,764
Group Operations	19,564	18,465
Central items	2,841	2,881
	112,345	111,398
Agency staff (full-time equivalent)	(8,486)	(7,168)
Total number of employees (full-time equivalent)	103,859	104,230

RISK MANAGEMENT

The income statement numbers in this section have been presented on a combined businesses basis.

RISK MANAGEMENT APPROACH

There have been no material changes to the Group's approach to risk management as described in the risk management report within the Lloyds Banking Group annual report and accounts for the year ended 31 December

2010.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group for the remaining six months of the year are set out below, together with details of how they have evolved during the first half of the 2011 and continue to be actively managed by the Group.

Economy

The global economic recovery has slowed in the first half of 2011. Sharp increases in the price of oil and other commodities across the turn of the year, driven by emerging market strength in 2010, have hit consumers' disposable incomes across the world and led to tighter monetary policy in emerging markets. Earlier fiscal stimulus in the US economy has now come to an end, and fiscal tightening is underway across Europe, particularly sharply in the most highly indebted countries. Whilst many advanced economies need an improvement in their net external trade position to offset weak consumer and government spending, current emerging market economic policies are not fully geared towards providing a strong engine of global growth through raising their own domestic demand. Highly indebted Eurozone countries are struggling to generate the growth needed to put their debt levels on a sustainable path given the scale of near-term austerity measures also required and the lack of help in the adjustment from interest rates or the exchange rate. Greece has required a second bail-out, agreed at the 21 July Eurozone summit meeting, but it is still unclear that it will be able eventually to service all its debt, so financial markets remain volatile and risk of contagion to other countries is unlikely to dissipate near-term.

All these factors together suggest that the global recovery is likely to continue to be weak and hesitant in comparison to other post-war recoveries. The degree of weakness in early 2011 was also exacerbated by the Japanese earthquake and tsunami, which has disrupted global manufacturing supply chains and caused some loss of production.

Current data show that the UK economy experienced very little underlying growth over the nine months to end of the second quarter of 2011. Consumer confidence and spending was hit by the fall in real disposable incomes. House prices have been falling gradually and commercial property prices have flattened off. Nevertheless, employment has continued to rise and our customers' current account transactions suggest that the underlying trend in households' income growth began to improve during the second quarter of 2011.

The Group's central scenario is for modest recovery to continue, assuming the recent Eurozone agreement on sovereign debt is enacted quickly and followed up by further measures for Greece. For the UK, the current projection reflected in our outlook, of 1.5 per cent Gross Domestic Product (GDP) growth in 2011 and 2.3 per cent in 2012 is broadly in line with consensus. Households' real spending growth should begin to improve as the squeeze from high inflation begins to reduce towards the end of the year. Net exports should continue to rise, reflecting the weakness of sterling. Unemployment should decline slowly, with companies reducing cost ratios through continued low wage growth. But with underlying inflationary pressures higher than before the recession, as the economy becomes more stable interest rates will need to rise gradually, and will act as a restraint on the recovery. Further improvements in the corporate failure rate are expected to be only gradual to the end of 2012. Both residential and commercial property prices are expected to end this year 2 per cent lower than at the end of 2010, and then rise only very slowly.

The US economic recovery is assumed to continue in the second half of 2011, as production recovers from the impacts of the Japanese earthquake, and in the Eurozone there is expected to be a continuing wide divergence between recovery in the stronger low-deficit countries and the higher deficit countries that will struggle to grow at all. The Irish economy, to which we have exposure, is expected to be only flat in 2011, and will not return to its pre-recession growth rate. House prices there are expected to fall by 10 per cent during 2011 and slightly further in 2012;

commercial property prices are expected to fall further during 2011, but be flat over 2012.

Economy(continued)

Downside risks around this scenario remain significant. Further increases in inflation could damage already weak consumer confidence, or result in earlier increases in interest rates if wage growth started to respond. Financial markets may remain unstable and continue to put extra pressure on other Eurozone economies outside Greece, given that current measures may fall short of solving Greece's problems. Since any shock to growth would also worsen the outlook for both public finances and bank capital and funding, a relatively small initial shock could throw economies onto a much weaker path as governments are forced to tighten fiscal policy even further or financial institutions are constrained in their ability to lend. A 'double-dip' scenario - a second shallower recession following closely the one that the economy is just emerging from - would result in further significant increases in corporate failures and unemployment during late 2011 and through 2012. In addition, residential and commercial property would suffer a second period of falling prices, tenant defaults would increase and central banks would have limited ability to cushion the downturn.

Impact on our markets

Mortgage market balances outstanding grew by just 0.2 per cent in the year to May, after 0.4 per cent growth in the year to end 2010. Unsecured consumer borrowing has, however, begun to pick up slightly from its extremely weak levels of 2010, although it is still very weak compared to longer term trends. Deposit market growth has also remained low, with growth in balances slowing to 2.1 per cent in May 2011 from 3 per cent at end 2010, as deteriorating disposable incomes have squeezed savings flows.

Businesses also continue to reduce their indebtedness. Non-financial corporations have continued to reduce borrowing so far in 2011. Rising profits and weak investment spending boosted companies' deposit growth in the latter part of 2009 and the first half of 2010, but deposits are now declining slowly.

Low interest rates have been a key benefit to consumers and businesses. Arrears and defaults rose by much less during the recession than in previous recessions, and began to improve in 2010 despite the weakness of the recovery in the economy. The number of individual insolvencies during the second half of 2010 was 8.9 per cent lower than a year earlier, and 15.5 per cent lower than a year earlier in the first quarter of 2011. The number of company liquidations in England and Wales rose in the first quarter of 2011, however, by 3.7 per cent from the fourth quarter of 2010 level, although they remain almost 18 per cent down from the mid 2009 peak and the failure of active companies has remained flat at 0.7 per cent.

We expect that a continuation of subdued economic recovery will be accompanied by a period of modest growth in our core markets for several years. Consumers and businesses will continue to deleverage slowly. Retail deposit growth will be limited by the pressure on consumers' disposable incomes from relatively high inflation and cuts in welfare benefits. Arrears trends should continue to improve, but less quickly than in 2010.

Liquidity and funding

Liquidity and funding continues to remain a key area of focus for the Group and the industry as a whole. Like all major banks, the Group is dependent on confidence in the short and long term wholesale funding markets. Should the Group, due to exceptional circumstances, be unable to continue to source sustainable funding, its ability to fund its financial obligations could be impacted.

The combination of right-sizing the balance sheet and continued development of the retail deposit base has seen the Group's wholesale funding requirement significantly reduce in the past two years. The progress the Group has made to date in diversifying its funding sources has further strengthened its funding base.

During the first half of 2011 the Group accelerated term funding initiatives and the run down of certain non-core asset portfolios allowing a further reduction in total Government and central bank facilities. The ratio of customer loans to deposits improved to 144 per cent compared with 154 per cent at 31 December 2010. Loans and advances reduced by £21.4 billion and customer deposits increased by £12.4 billion.

The second quarter of 2011 has seen funding markets' risk appetite reduce as a result of escalating European sovereign concerns. During this period the Group has continued to fund successfully with no material change to the Group's short-term maturity profile. The Group anticipates that wholesale markets will remain vulnerable to periods of disruption and to mitigate this risk has deliberately pre-funded much of the year's term funding requirement during the first half.

The Group term funding ratio (wholesale funding with a remaining life of over one year as a percentage of total wholesale funding) of 49 per cent was broadly stable (50 per cent at 31 December 2010). The wholesale funding position includes debt issued under the legacy Government Credit Guarantee Scheme, for which the last maturity will occur in October 2012.

The Group has maintained its liquidity levels in excess of the ILG regulatory minimum (FSA's Individual Liquidity Adequacy Standards) at all times. Funding projections show the Group will achieve the proposed Basel 3 liquidity and funding metrics in advance of expected implementation dates. The Liquidity Coverage Ratio is due to be implemented on 1 January 2015 and the Net Stable Funding Ratio has a 1 January 2018 implementation date.

The key dependencies on successfully funding the Group's balance sheet include the continued functioning of the money and capital markets; successful right-sizing of the Group's balance sheet; the repayment of the Government Credit Guarantee Scheme facilities in accordance with the agreed terms; no more than limited further deterioration in the UK's and the Group's credit rating; and no significant or sudden withdrawal of deposits resulting in increased reliance on money markets. Additionally, the Group has entered into a number of EU state aid related obligations to achieve reductions in certain parts of its balance sheet by the end of 2014. These are assumed within the Group's funding plan. The requirement to meet this deadline may result in the Group having to provide funding to support these asset reductions and/or disposals and may also result in a lower price being achieved.

Liquidity and funding (continued)

Group funding position

	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn	Change %
Funding Requirement			
Loans and advances to customers1	568.1	589.5	(4)
Loans and advances to banks2	9.0	10.5	(14)
Debt securities	15.5	25.7	(40)
Available-for-sale financial assets - secondary3	16.2	25.7	(37)
Cash balances4	3.2	3.6	(11)

Funded assets	612.0	655.0	(7)
On balance sheet primary liquidity assets5			
Reverse repos	23.3	7.3	
Balances at central banks - primary4	52.0	34.5	51
Available-for-sale financial assets - primary	16.6	17.3	(4)
Held to maturity	7.8	7.9	(1)
Trading and other financial assets	1.2	-	
	100.9	67.0	51
Other assets6	266.1	269.6	(1)
Total Group assets	979.0	991.6	(1)
Less: Other liabilities6	(228.6)	(229.1)	
Funding requirement	750.4	762.5	(2)
Funded by			
Customer deposits7	394.9	382.5	3
Wholesale funding	295.6	298.0	(1)
Group funding	690.5	680.5	1
Repos	14.4	35.1	(59)
Total equity	45.5	46.9	(3)
Total funding	750.4	762.5	(2)

1 Excludes £19.7 billion (31 December 2010: £3.1 billion) of reverse repos.
2 Excludes £15.3 billion (31 December 2010: £15.6 billion) of loans and advances to banks within the insurance businesses and £3.9 billion (31 December 2010: £4.2 billion) of reverse repos.
3 Secondary liquidity assets comprise a diversified pool of highly rated unencumbered collateral (including retained issuance).
4 Cash balances and Balances at central banks - primary are combined in the Group's balance sheet.
5 Primary liquidity assets are FSA eligible liquid assets including UK Gilts, US Treasuries, Euro AAA government debt and unencumbered cash balances held at central banks.
6 Other assets and other liabilities primarily include balances in the Group's insurance businesses and the fair value of derivative assets and liabilities.
7 Excluding repos of £5.0 billion (31 December 2010: £11.1 billion).

Liquidity and funding (continued)

Group funding by type

	As at 30 June 2011 £bn	As at 30 June 2011 %	As at 31 Dec 2010 £bn	As at 31 Dec 2010 %
Deposits from banks1	21.9	3.2	26.4	3.9
Debt securities in issue:1				
Certificates of deposit	46.4	6.7	42.4	6.2
Commercial paper	27.3	4.0	32.5	4.8
Medium-term notes2	86.6	12.5	87.7	12.9

Covered bonds	39.1	5.6	32.1	4.7
Securitisation	37.1	5.4	39.0	5.7
	236.5	34.2	233.7	34.3
Subordinated liabilities1	37.2	5.4	37.9	5.6
Total wholesale funding3	295.6	42.8	298.0	43.8
Customer deposits	394.9	57.2	382.5	56.2
Total Group funding4	690.5	100.0	680.5	100.0

1 A reconciliation to the Group's balance sheet is provided on page 98.
2 Medium term notes include £37.1 billion of funding from the Credit Guarantee scheme.
3 The Group's definition of wholesale funding aligns with that used by other international market participants; including interbank deposits, debt securities in issue and subordinated liabilities.
4 Excluding repos and total equity.

Total wholesale funding is analysed by residual maturity as follows:

	As at 30 June 2011 £bn	As at 30 June 2011 %	As at 31 Dec 2010 £bn	As at 31 Dec 2010 %
Less than one year	151.7	51.3	148.6	49.9
One to two years	29.4	9.9	46.8	15.7
Two to five years	60.6	20.5	52.3	17.6
More than five years	53.9	18.3	50.3	16.8
Total wholesale funding	295.6	100.0	298.0	100.0

Liquidity and funding (continued)

Term issuance

Going into 2011 the Group anticipated that periods of market volatility (as experienced in 2010) could recur and therefore leave the wholesale markets vulnerable to disruption. To mitigate this, the Group deliberately pre-funded much of the Group's term funding requirement in the first quarter. At the half-year, the Group has completed in excess of three-quarters of its targeted annual wholesale term issuance for 2011 targeting periods when markets were open and receptive to new issues and using a broad mix of products and currencies. As a result of this the Group is in position to be more selective as to which products and markets in which it will participate during the second half of 2011.

	Sterling £bn	US Dollar £bn	Euro £bn	Other currencies £bn	Total £bn
Covered bonds	1.3	-	2.2	-	3.5
Securitisation	1.3	2.1	1.7	0.2	5.3
Medium-term notes	0.2	4.3	2.6	2.5	9.6

Private placements1	2.5	0.4	3.5	0.4	6.8
Total Issuance	5.3	6.8	10.0	3.1	25.2

1 Private placements include structured bonds and term repos.

Liquidity portfolio

The table below illustrates the Group's holding of highly liquid unencumbered assets. This liquidity is available for deployment at immediate notice, subject to complying with regulatory requirements, and is a key component of the Group's liquidity management process.

	As at 30 June 2011 £bn	As at 31 Dec 2010 £bn
Primary liquidity1	100.9	97.5
Secondary liquidity2	117.5	62.4
Total	218.4	159.9

1 Primary liquidity is defined as FSA eligible liquid assets (UK Gilts, US Treasuries, Euro AAA government debt; unencumbered cash balances held at central banks).
2 Secondary liquidity comprises a diversified pool of highly rated unencumbered collateral (including retained issuance).

Following the introduction of the FSA's Individual Liquidity Guidance under ILAS (Individual Liquidity Adequacy Standard), the Group now manages its liquidity position as a coverage ratio (proportion of stressed outflows covered by primary liquid assets) rather than by reference to a quantum of liquid assets; the liquidity position reflects a buffer over the regulatory minimum. The Group receives no recognition under ILAS for assets held for secondary liquidity purposes.

In addition to primary liquidity holdings the Group has significant capacity to apply for the Discount Window facility in the event of future liquidity problems.

Liquidity and funding (continued)

The following tables reconcile figures reported on page 96

	As at 30 June 2011			
	Included in funding analysis (above) £bn	Repos £bn	Fair value and other accounting methods £bn	Balance sheet £bn
Deposits from banks	21.9	9.4	-	31.3
Debt securities in issue	236.5	-	(5.3)	231.2
Subordinated liabilities	37.2	-	(1.6)	35.6
Total wholesale funding	295.6	9.4		

Customer deposits	394.9	5.0	-	399.9
Total	690.5	14.4		

	As at 31 December 2010			
	Included in funding analysis (above) £bn	Repos £bn	Fair value and other accounting methods £bn	Balance sheet £bn
Deposits from banks	26.4	24.0	-	50.4
Debt securities in issue	233.7	-	(4.8)	228.9
Subordinated liabilities	37.9	-	(1.7)	36.2
Total wholesale funding	298.0	24.0		
Customer deposits	382.5	11.1	-	393.6
Total	680.5	35.1		

Credit risk - Group

As at 30 June 2011	Loans and advances to customers £m	Impaired loans £m	Impaired loans as a % of closing advances %	Impairment provisions1 £m	Impairment provisions as a % of impaired loans %
Retail	362,441	9,390	2.6	3,003	32.0
Wholesale	143,983	29,249	20.3	12,811	43.8
Commercial	29,694	2,993	10.1	933	31.2
Wealth and International	64,119	23,836	37.2	12,824	53.8
Hedging and other items	20,176	-	-	-	-
	620,413	65,468	10.6	29,571	45.2
Impairment provisions	(29,571)				
Fair value adjustments	(2,999)				
Total Group	587,843				
As at 31 December 2010					
Retail	368,981	9,750	2.6	3,096	31.8
Wholesale	158,002	31,658	20.0	14,863	46.9
Commercial	29,649	2,856	9.6	992	34.7
Wealth and International	66,368	20,342	30.7	10,684	52.5

Hedging and other items	3,378	-	-	-	-
	626,378	64,606	10.3	29,635	45.9
Impairment provisions	(29,635)				
Fair value adjustments	(4,146)				
Total Group	592,597				

1 Impairment provisions include collective unimpaired provisions.

Total impairment charge	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change %	Half-year to 31 Dec 2010 £m
Retail	1,173	1,335	12	1,412
Wholesale	1,557	2,801	44	1,263
Commercial	160	190	16	192
Wealth and International	2,532	2,228	(14)	3,760
Total impairment charge	5,422	6,554	17	6,627

Total impairment charge comprises:

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change %	Half-year to 31 Dec 2010 £m
Total impairment losses on loans and advances to customers	5,369	6,499	17	6,459
Loans and advances to banks	-	(6)		(7)
Debt securities classified as loans and receivables	17	15	(13)	42
Available-for-sale financial assets	32	49	35	66
Other credit risk provisions	4	(3)		67
Total impairment charge	5,422	6,554	17	6,627

Credit risk - Group (continued)

Core

As at 30 June 2011	Loans and advances to customers £m	Impaired loans £m	Impaired loans as a % of closing advances %	Impairment provisions1 £m	Impairment provisions as a % of impaired loans %

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Retail	332,848	7,670	2.3	2,575	33.6
Wholesale	81,396	3,982	4.9	2,394	60.1
Commercial	28,025	2,968	10.6	915	30.8
Wealth and International	8,364	281	3.4	79	28.1
Hedging and other items	20,176	-	-	-	-
	470,809	14,901	3.2	5,963	40.0
Impairment provisions	(5,963)				
Fair value adjustments	(1,643)				
Total Group	463,203				
As at 31 December 2010					
Retail	338,174	8,067	2.4	2,715	33.7
Wholesale	87,892	4,430	5.0	2,323	52.4
Commercial	27,618	2,835	10.3	976	34.4
Wealth and International	8,435	202	2.4	74	36.6
Hedging and other items	3,378	-	-	-	-
	465,497	15,534	3.3	6,088	39.2
Impairment provisions	(6,088)				
Fair value adjustments	(2,138)				
Total Group	457,271				

1 Impairment provisions include collective unimpaired provisions.

Total impairment charge - core

	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change %	Half-year to 31 Dec 2010 £m
Retail	1,052	1,286	18	1,343
Wholesale	409	162		414
Commercial	160	189	15	192
Wealth and International	15	16	6	10
Total impairment charge	1,636	1,653	1	1,959

Credit risk - Group (continued)

Non-core

As at 30 June 2011 Loans and Impaired Impairment provisions1 Impairment

	advances to customers	Impaired loans	loans as a % of closing advances		provisions as a % of impaired loans
	£m	£m	%	£m	%
Retail	29,593	1,720	5.8	428	24.9
Wholesale	62,587	25,267	40.4	10,417	41.2
Commercial	1,669	25	1.5	18	72.0
Wealth and International	55,755	23,555	42.2	12,745	54.1
Hedging and other items	-	-	-	-	-
	149,604	50,567	33.8	23,608	46.7
Impairment provisions	(23,608)				
Fair value adjustments	(1,356)				
Total Group	124,640				
As at 31 December 2010					
Retail	30,807	1,683	5.5	381	22.6
Wholesale	70,110	27,228	38.8	12,540	46.1
Commercial	2,031	21	1.0	16	76.2
Wealth and International	57,933	20,140	34.8	10,610	52.7
Hedging and other items	-	-	-	-	-
	160,881	49,072	30.5	23,547	48.0
Impairment provisions	(23,547)				
Fair value adjustments	(2,008)				
Total Group	135,326				

1 Impairment provisions include collective unimpaired provisions.

Total impairment charge - non-core

	Half-year to 30 June 2011	Half-year to 30 June 2010	Change	Half-year to 31 Dec 2010
	£m	£m	%	£m
Retail	121	49		69
Wholesale	1,148	2,639	56	849
Commercial	-	1		-
Wealth and International	2,517	2,212	(14)	3,750
Total impairment charge	3,786	4,901	23	4,668

Credit risk - Group (continued)

Overview

- The Group achieved a reduction in its core impairment charge in the first half of 2011 to £1,636 million (from £1,653 million in the first half of 2010 and £1,959 million in the second half of 2010), due to the stabilisation of the UK economic environment (including UK corporate real estate prices), together with continued low UK interest rates and effective portfolio management.

- The non-core impairment charge also reduced materially from £4,901 million in the first half of 2010 and £4,668 million in the second half of 2010 to £3,786 million in the first half of 2011. The reduction from the first half of 2010 largely reflected the stabilisation of the UK and US economic environment, low interest rates and the heritage HBOS wholesale portfolio appropriately impaired against our base case economic assumptions. This was slightly offset by further new provisions on the Irish book.

- Prudent, 'through the cycle' credit policies and procedures are in place throughout the Group, focusing on development of enduring client relationships. As a result of this approach, the credit quality of new lending remains strong. Very little new origination took place outside the UK.

- The Group's current level of impairment is being managed successfully in the current challenging economic environment by the Wholesale business support units and Retail collection and recovery units.

- The Group's exposure to Ireland is being closely managed. In the first half, we have taken additional provisions in Ireland due to further falls in the commercial real estate market as previously anticipated. We believe that further vulnerability exists. A dedicated UK-based business support team is in place to manage the winding down of the Irish book.

Outlook - Group

Based on its latest economic assumptions of a continued modest UK recovery from recession, as set out on page 92, the Group expects an improved impairment charge in 2011 compared with 2010. However, there are material downside risks to impairment charges, with a number of factors potentially causing cashflow stress and higher levels of default amongst wholesale customers into 2012. These include, in the UK, fragile consumer and business confidence, potential interest rate and inflation rises and reduced consumer spending. A 'double-dip' scenario - a second shallower recession following closely the one from which the economy is just emerging - also remains a downside risk. This is because it would result in further significant increases in corporate failures and unemployment during late 2011 and through 2012, as well as causing a second period of falling prices for residential and commercial property and a likely rise in tenant defaults.

Downside risks from financial market instability are also significant. Uncertainty over the best way forward for highly indebted Eurozone countries could keep financial markets volatile and the risk of contagion to other Eurozone countries is unlikely to dissipate near term.

We continue to monitor closely liquidity and economic conditions in our key overseas markets of Ireland and Australasia. In Ireland, the fragility of the economy and political system could still cause further credit quality deterioration within our book as it winds down. Australia, while benefiting from a commodities export boom, continues to be affected by deteriorating property markets in the geographic areas and property classes where the Group is exposed.

Credit risk - Group (continued)

Exposures to Selected Eurozone Countries

On 15 July 2011 the European Banking Authority (EBA) announced the results of its EU-wide stress test conducted in cooperation with the FSA, the European Central Bank, the European Commission and the European Systemic Risk Board. The EU-wide stress test, carried out across 90 banks covering over 65 per cent of the EU banking system total assets, sought to assess the resilience of European banks to severe shocks and their specific solvency in hypothetical stress events under certain restrictive conditions. The Group's core tier 1 capital ratio, when stressed in accordance with the EBA's defined methodology, at 7.7 per cent, remains well above the capital benchmark required.

At about the same time as the EBA announcement, the FSA published draft proposals for disclosures to be made by UK banks at 30 June 2011 on direct sovereign debt and related exposures, to be shown by reference to accounting values; the Group has sought to adopt these proposals.

The Group has direct exposure to certain European countries which have been identified on the basis of their higher bond yields compared to the rest of the Eurozone and the UK - Belgium, Greece, Ireland, Italy, Portugal and Spain. This is consistent with the countries recommended for disclosure by the FSA.

The Group manages its exposures to individual countries through authorised country limits which take into account economic, financial, political and social factors. In addition the Group manages its indirect risks to the selected countries by establishing and monitoring risk limits for individual banks and financial institutions outside of these countries where they have direct exposures to the selected countries. The profiles of these banks and financial institutions are monitored on a regular basis and exposures managed accordingly.

Sovereigns, Banking Groups and Asset Backed Securities

As at 30 June 2011	Direct Sovereign £m	Banking Groups £m	Asset Backed Securities £m	Total £m
Belgium	87	318	-	405
Greece	-	-	70	70
Ireland	-	366	373	739
Italy	35	1,780	48	1,863
Portugal	-	241	424	665
Spain	67	2,136	450	2,653
Total	189	4,841	1,365	6,395

Approximately half of the overall positions of £6.4 billion relate to structures where there are underlying assets securing the obligations (ABS or Covered Bonds); the balance are generally floating rate notes or short term unsecured money market exposures or general banking facilities.

Direct Sovereign (including Central Banks)

As at 30 June 2011, the Group had minimal exposure, in aggregate, which could be considered to be direct recourse to the sovereign risk of Belgium, Greece, Ireland, Italy, Portugal and Spain. This includes the national governments and central banks in these countries. Direct sovereign exposures include those to the Export Credit Agencies for Italy and Spain. Since 2009, the Group has proactively managed and reduced limits and exposures to these countries.

Undrawn committed facilities and contingents total £110 million. Derivatives with sovereigns and sovereign referenced credit default swaps are immaterial.

Credit risk - Group (continued)

Banking Groups
Exposures are to banking groups headquartered in these countries and their major subsidiaries and comprise:

As at 30 June 2011	Fixed and floating rate notes £m	Covered bonds £m	Money market, short-term and other exposures £m	Derivatives £m	Total £m
Belgium	242	-	77	(1)	318
Greece	-	-	-	-	-
Ireland	-	145	220	1	366
Italy	216	-	1,542	22	1,780
Portugal	-	150	90	1	241
Spain	163	1,584	370	19	2,136
Total	621	1,879	2,299	42	4,841

The Fixed and Floating Rate Notes (FRNs) are all classified as available-for-sale financial assets and have an overall weighted maturity of less than two years. They are all rated A- or better. Further, in respect of the Spanish exposures a quarter matures in the autumn and the balance is government guaranteed. They are shown at fair value with a charge of £6 million having been taken to available-for-sale reserves; no impairments have been recognised. There have been significant reductions in FRN positions during the first half of 2011 from £2,701 million at 31 December 2010 to £621 million at 30 June 2011. The reductions have been a result of asset sales and maturities.

The Covered Bonds are ultimately secured on a pool of mortgage assets in the countries concerned; 80 per cent are AA- rated or better. The bonds benefit from over-collateralisation and are all classified as available-for-sale financial assets, with an overall weighted maturity of approximately five years. They are shown at fair value with a charge of £262 million having been taken to available-for-sale reserves; no impairments have been recognised.

Money market, short-term and other exposures are to major banks in the countries concerned. These are predominantly short-term and include general banking facilities, money market and repo facilities. No impairments are held against these exposures. In addition there are unutilised money market lines and repo facilities of approximately £2.5 billion predominantly in respect of Spanish and Italian banks. Bank limits have been closely monitored with amounts and tenors reduced where appropriate. Of the exposures:

- Italy - approximately 90 per cent of the exposure is to institutions rated at least A-.

- Spain - approximately 80 per cent of the exposure is to institutions rated at least A-.

Derivatives are shown at fair value adjusted where master netting agreements exist and net of collateral of £191 million. There are no credit default swap positions in place where the counterparty bank is domiciled in one of the selected Eurozone countries. There are credit default swap positions referenced to banking groups domiciled in Italy (net long of £10 million) and Spain (net long of £2 million and net short of £6 million).

Credit risk - Group (continued)

Asset Backed Securities

Asset Backed Securities where the underlying assets are located in the countries concerned are analysed between those which are included in loans and receivables and those which are included in available-for-sale financial assets. In the majority of cases the underlying assets are residential mortgages and the securities are predominantly A rated or higher.

	Loans and receivables		Available-for-sale financial assets		Weighted average maturity
	Current carrying value £m	Fair value £m	Current carrying value £m	Total carrying value £m	Years
Belgium	-	-	-	-	-
Greece	36	23	34	70	6
Ireland	170	135	203	373	8
Italy	33	36	15	48	2
Portugal	232	194	192	424	9
Spain	246	208	204	450	8
Total	717	596	648	1,365	8

The loans and receivables are held at amortised cost, net of £4 million impairment allowances. The available-for-sale financial assets are shown at fair value with a charge of £202 million having been taken to available-for-sale reserves. Significant reductions have been achieved during the first half of 2011 with the overall portfolio of Asset Backed Securities relevant to the selected countries reducing from £2,677 million at 31 December 2010 to £1,365 million at 30 June 2011 predominantly through asset sales.