Lloyds Banking Group plc
Form 6-K
August 12, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13A-16 OR 15D-16
OF THE SECURITIES EXCHANGE ACT OF 1934

12 AUGUST 2011

LLOYDS BANKING GROUP plc

(Translation of registrant's name into English)

25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

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

Form 20-F S Form 40-F £

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

Yes £ No S

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule12g3-2(b): 82-
____

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-167844; 333-167844-01) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

EXPLANATORY NOTE

This report on Form 6-K contains the interim report of Lloyds Banking Group plc, which includes the unaudited consolidated interim results for the half-year ended 30 June 2011, and is being incorporated by reference into the Registration Statement with File Nos. 333-167844 and 333-167844-01.

As discussed in note 59 on page F-124 of the audited consolidated financial statements included in the Group's Annual Report on Form 20-F and in note 22 on page 115 of this Form 6-K, the Group made a provision of £3,200 million in the year ended 31 December 2010 in connection with the sale of payment protection insurance. This provision was made following a UK High Court judgment handed down before the Group's Form 20-F was filed but after the approval and publication of the Group's UK annual report and accounts. In accordance with IAS 10, the provision was recorded in the Group's 2010 income statement included in the Form 20-F, whereas it has been recorded in the Group's 2011 first half results for UK reporting purposes.

BASIS OF PRESENTATION

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

Statutory basis
Statutory results are set out on pages 88 to 135 and discussed on pages 2 to 4. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2011 interim results with 2010 is of reduced benefit.

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

- In order to reflect the impact of the acquisition of HBOS, the amortisation of purchased intangible assets has been excluded; and the unwind of acquisition-related fair value adjustments is shown as one line in the combined businesses income statement.
- In order to better present the business performance the following items, not related to acquisition accounting, have also been excluded:

  – integration costs;
  – volatility arising in insurance businesses;
  – curtailment gains and losses in respect of the Group's defined benefit pension schemes;
  – customer goodwill payments provision;
  – payment protection insurance provision;
  – sale costs in respect of the EU mandated retail business disposal; and
  – loss on disposal of businesses.

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

FORWARD LOOKING STATEMENTS

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

CONTENTS

LLOYDS BANKING GROUP PLC

SUMMARY OF RESULTS (UNAUDITED)

Results	Half-year to 30 June 2011 £m	Half-year to 30 June 2010 £m	Change since 30 June 2010 %	Half-year to 31 Dec 2010 £m
Statutory (IFRS)				
Total income, net of insurance claims	10,854	12,591	(14)	12,365
Total operating expenses	(6,428)	(5,811)	(11)	(10,659)
Trading surplus	4,426	6,780	(35)	1,706
Impairment	(4,491)	(5,423)	17	(5,529)
(Loss) profit before tax	(51)	1,296		(4,215)
Profit (loss) attributable to equity shareholders	31	596		(3,252)
Earnings (loss) per share	0.0p	0.9p		(4.8)p
Combined businesses basis (note 1, page 43)				
Total income, net of insurance claims	10,178	12,481	(18)	10,963
Operating expenses1	(5,332)	(5,435)	2	(5,493)
Trading surplus	4,846	6,896	(30)	5,470
Impairment	(5,422)	(6,554)	17	(6,627)
Profit before tax	1,104	1,603	(31)	609

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

Capital and balance sheet	As at 30 June 2011	As at 31 Dec 2010	Change since 31 Dec 2010 %
Statutory (IFRS)			
Loans and advances to customers1	£587.8bn	£592.6bn	(1)
Customer deposits2	£399.9bn	£393.6bn	2
Loan to deposit ratio3	144%	154%	
Risk-weighted assets	£383.3bn	£406.4bn	(6)
Core tier 1 capital ratio	10.1%	9.6%	

1 Includes reverse repos of £19.7 billion (31 December 2010: £3.1 billion).
2 Includes repos of £5.0 billion (31 December 2010: £11.1 billion).
3 Excludes repos of £5.0 billion (31 December 2010: £11.1 billion) and reverse repos of £19.7 billion (31 December 2010: £3.1 billion).

LLOYDS BANKING GROUP PLC

STATUTORY INFORMATION (IFRS)

GROUP PERFORMANCE (UNAUDITED)
(STATUTORY BASIS – IFRS)

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Interest and similar income	13,437	14,661	14,679
Interest and similar expense	(7,448)	(7,623)	(9,171)
Net interest income	5,989	7,038	5,508
Fee and commission income	2,153	2,219	2,196
Fee and commission expense	(690)	(812)	(870)
Net fee and commission income	1,463	1,407	1,326
Net trading income	3,118	1,245	14,479
Insurance premium income	4,125	4,300	3,848
Other operating income	1,508	1,790	2,526
Other income	10,214	8,742	22,179
Total income	16,203	15,780	27,687
Insurance claims	(5,349)	(3,189)	(15,322)
Total income, net of insurance claims	10,854	12,591	12,365
Payment protection insurance provision	–	–	(3,200)
Other operating expenses	(6,428)	(5,811)	(7,459)
Total operating expenses	(6,428)	(5,811)	(10,659)
Trading surplus	4,426	6,780	1,706
Impairment	(4,491)	(5,423)	(5,529)
Share of results of joint ventures and associates	14	(61)	(27)
Loss on disposal of businesses	–	–	(365)
(Loss) profit before tax	(51)	1,296	(4,215)
Taxation	109	(630)	955
Profit (loss) for the period	58	666	(3,260)

Review of results

The consolidated income statement shows a loss before tax of £51 million for the half-year to 30 June 2011. This compares to a profit before tax of £1,296 million for the half-year to 30 June 2010; however, the results for the half-year to 30 June 2010 included a pension curtailment credit in relation to the Group's defined benefit pension schemes of £1,019 million and liability management gains of £423 million which were not repeated in the half-year to 30 June 2011. The Group reported a loss before tax of £4,215 million in the half-year to 31 December 2010 as a result of the payment protection insurance provision of £3,200 million, the customer goodwill payments provision of £500 million and a loss on disposal of businesses of £365 million.

Net interest income decreased by £1,049 million, or 15 per cent, from £7,038 million to £5,989 million in the half-year to 30 June 2011, reflecting lower interest-earning asset balances across loans and receivables together with a reduced net interest margin as a result of continued high wholesale funding costs, a competitive deposit market and the effect of refinancing a significant amount of government and central bank facilities. In addition, net interest income was reduced by a £388 million increase in the amount payable to unit holders in those Open-Ended

Investment Companies included in the consolidated results of the Group.

LLOYDS BANKING GROUP PLC

Review of results (continued)

Other income increased by £1,472 million, or 17 per cent, to £10,214 million in the half-year to 30 June 2011 compared to £8,742 million, due to higher levels of net trading income arising from increases in the value of assets held to support insurance and investment contracts (although this is largely matched by an increase in the related claims expense), partly offset by a £428 million adverse movement in the mark-to-market adjustment arising from the equity conversion feature of the Group's enhanced capital notes and the non-recurrence of the £423 million of gains on liability management transactions which arose in the half-year to 30 June 2010.

Overall total income increased by £423 million, or 3 per cent, from £15,780 million in the half-year to 30 June 2010 to £16,203 million in the half-year to 30 June 2011.

Insurance claims increased by £2,160 million, or 68 per cent, to £5,349 million in the half-year to 30 June 2011 compared to £3,189 million in the half-year to 30 June 2010, reflecting the increase in liabilities to policyholders as a result of gains on policyholder investments in the long-term insurance business.

Operating expenses increased by £617 million, or 11 per cent, to £6,428 million in the half-year to 30 June 2011 compared to £5,811 million in the half-year to 30 June 2010. Adjusting for the £1,019 million pension curtailment gain in 2010 which was not repeated in 2011, costs were £402 million lower. The Group continues to benefit from cost synergies as a result of the on-going integration of the Lloyds TSB and HBOS businesses. Staff costs excluding the curtailment gain were £140 million lower, in part due to the closure of the Group's operations in Ireland; depreciation and amortisation was £116 million lower, following a reduction in operating lease assets; and there was a £137 million reduction in the charge for the impairment of tangible fixed assets.

Impairment losses decreased by £932 million, or 17 per cent, from £5,423 million in the half-year to 30 June 2010 to £4,491 million in the half-year to 30 June 2011, reflecting improved credit quality experience in both Retail and Wholesale, partly offset by increased impairments in Ireland and Australia. The improvement in Retail was driven by the unsecured portfolio and reflects risk management initiatives, improved business quality and a stabilising economy. The improvement in Wholesale reflected lower impairments in the former HBOS corporate real estate and real estate-related portfolios, the stabilising UK and US economies in 2010 and the continuing low interest rate environment in 2011. The increased charges in Ireland reflect the fact that the Group has allowed for a greater than previously anticipated fall in commercial real estate prices. In Australasia, although economic performance has been robust overall, the Group's portfolio has significant geographical and sector concentrations and these assets continue to be a concern.

The taxation credit of £109 million on a loss before tax of £51 million reflects adjustments in respect of policyholder interests and the benefit of deferred tax assets not previously recognised, in respect of tax losses, more than offsetting the charge arising from the reduction of the Group's deferred tax asset as a consequence of the decrease in the main rate of UK corporation tax to 26 per cent.

Total assets have decreased by £13,487 million, or 1 per cent, from £992,438 million at 31 December 2010 to £978,951 million at 30 June 2011 reflecting the Group's balance sheet reduction plans. However, in the Merlin agreement with the UK Government, the Group and four other major UK banks announced in February the intention to enhance support for the UK economic recovery by delivering increased gross business lending in 2011 compared to 2010. The Merlin banks further agreed to provide the capacity to support additional gross new lending of up to £190 billion to creditworthy UK businesses, including £76 billion for SMEs, if sufficient demand emerges. Based on performance in the first half of 2011, the Group is on track to deliver its full year contribution to the Merlin lending agreement, subject to sufficient demand for finance being maintained in the current economic climate. The Group actively looks at all opportunities to support UK businesses and continues to innovate in the market to meet its customers' needs.

Customer deposits increased by £6,286 million, or 2 per cent, from £393,633 million at 31 December 2010 to £399,919 million at 30 June 2011 as a result of deposit-raising initiatives, including continued strong deposit inflows in the Group's Wealth and International online deposit business.

LLOYDS BANKING GROUP PLC

Review of results (continued)

Shareholders' equity increased by £1,184 million, or 3 per cent, to £44,909 million at 30 June 2011 compared to £43,725 million at 31 December 2010 mainly as a result of increases in the available-for-sale and cash flow hedging reserves. The Group's total capital ratio was 15.0 per cent (31 December 2010: 14.5 per cent) with a tier 1 capital ratio of 11.6 per cent (31 December 2010: 11.0 per cent) and a core tier 1 capital ratio of 10.1 per cent (31 December 2010: 9.6 per cent); the Group's capital base was little changed over the half-year and the improved capital ratios are mainly due to decreases in risk-weighted assets.

LLOYDS BANKING GROUP PLC

SEGMENTAL ANALYSIS OF PROFIT BEFORE TAX BY DIVISION (UNAUDITED)
(COMBINED BUSINESSES BASIS)

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Retail	2,200	2,495	2,221
Wholesale1	1,429	585	2,333
Commercial1	262	157	182
Wealth and International	(2,080)	(1,609)	(3,215)
Insurance	543	469	633
Group Operations and Central items:			
Group Operations	(62)	(56)	(7)
Central items	(1,188)	(438)	(1,538)
	(1,250)	(494)	(1,545)
Profit before tax	1,104	1,603	609

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

The basis of preparation of the Group's segmental results is set out in note 1 on page 43.

The Group Executive Committee (GEC), which is the chief operating decision maker for the Group, reviews the Group's internal reporting based around these segments (which reflect the Group's organisational and management structures) in order to assess the performance and allocate resources; this reporting is on a combined businesses basis, which the GEC believes best represents the underlying performance of the Group. These combined businesses segmental results for the periods shown above are therefore presented in compliance with IFRS 8 Operating Segments. However, the aggregate total of the combined businesses segmental results constitutes a non-GAAP measure as defined in the United States Securities and Exchange Commission's Regulation G and a reconciliation of the aggregated total to the statutory consolidated IFRS income statement is therefore provided in note 1 on page 44.

To enable meaningful comparisons to be made with prior periods, the income statement commentaries in the following pages are on a combined businesses basis (see 'basis of preparation'). Certain commentaries also exclude the unwind of fair value adjustments.

Management uses the aggregated total of the combined businesses segmental results, a non-GAAP measure, as a measure of performance and believes that it provides important information for investors because it is a comparable representation of the Group's performance. Profit before tax is the comparable GAAP measure to profit before tax on a combined businesses basis; a reconciliation of the Group's statutory consolidated IFRS income statement to its combined businesses income statement is shown in note 1 on page 44. Readers should be aware that the combined businesses basis excludes certain items, as indicated in the tables in note 1, reflected in the Group's statutory consolidated IFRS results.

LLOYDS BANKING GROUP PLC

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

	Half-year to 30 June 2011 £ million	Half-year to 30 June 2010 £ million	Half-year to 31 Dec 2010 £ million
Profit before tax – combined businesses	1,104	1,603	609
Integration costs	(642)	(804)	(849)
Volatility arising in insurance businesses (note 5, page 49)	(177)	(199)	505
Amortisation of purchased intangibles	(289)	(323)	(306)
Customer goodwill payments provision	–	–	(500)
Pension curtailment gain (loss) (note 4, page 103)	–	1,019	(109)
Payment protection insurance provision (note 22, page 115)	–	–	(3,200)
EU mandated retail business disposal costs	(47)	–	–
Loss on disposal of businesses	–	–	(365)
(Loss) profit before tax – statutory	(51)	1,296	(4,215)

LLOYDS BANKING GROUP PLC

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

Half-year to 30 June 2011	Retail £m	Wholesale £m	Commercial £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	4,163	1,401	649	509	(142)	(202)	6,378
Other income	884	1,337	218	631	1,319	(391)	3,998
Total income	5,047	2,738	867	1,140	1,177	(593)	10,376
Insurance claims	–	–	–	–	(198)	–	(198)
Total income, net of insurance claims	5,047	2,738	867	1,140	979	(593)	10,178
Operating expenses	(2,221)	(1,312)	(471)	(792)	(415)	(121)	(5,332)
Trading surplus	2,826	1,426	396	348	564	(714)	4,846
Impairment	(1,173)	(1,557)	(160)	(2,532)	–	–	(5,422)
Share of results of joint ventures and associates	3	9	–	–	–	–	12
Profit (loss) before tax and fair value unwind	1,656	(122)	236	(2,184)	564	(714)	(564)
Fair value unwind1	544	1,551	26	104	(21)	(536)	1,668
Profit (loss) before tax	2,200	1,429	262	(2,080)	543	(1,250)	1,104
Banking net interest margin2	2.26%	1.64%	4.35%	1.47%			2.07%
Cost:income ratio3	44.0%	47.9%	54.3%	69.5%	42.4%		52.4%
Impairment as a % of average advances (annualised)4	0.65%	2.02%	1.07%	7.89%			1.77%

Key balance sheet and other items As at 30 June 2011	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	357.8	149.8	28.7	51.1		0.4	587.8
Customer deposits	242.3	85.0	32.7	38.9		1.0	399.9
Risk-weighted assets	109.6	176.6	26.8	56.4		13.9	383.3

1 The net credit in the first half of 2011 of £1,668 million is mainly attributable to a reduction in the impairment charge of £931 million as losses reflected in the acquisition balance sheet

valuations of the lending and securities portfolios have been incurred.

2 The calculation basis for banking net interest margins is set out in note 2 on page 46.

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

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

LLOYDS BANKING GROUP PLC

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

Half-year to 30 June 2010	Retail	Wholesale	Commercial	Wealth and Int'l	Insurance	Group Operations and Central items	Group
	£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	368.0	155.9	28.7	57.6		1.9	612.1
Customer deposits	230.7	128.4	30.8	30.3		0.2	420.4
Risk-weighted assets	106.8	251.5	29.2	59.3		16.4	463.2

LLOYDS BANKING GROUP PLC

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

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

Key balance sheet and other items As at 31 December 2010	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	363.7	144.6	28.6	55.3		0.4	592.6
Customer deposits	235.6	93.0	31.3	32.8		0.9	393.6
Risk-weighted assets	109.3	196.1	26.6	58.7		15.7	406.4

LLOYDS BANKING GROUP PLC

GROUP PERFORMANCE (UNAUDITED)
(COMBINED BUSINESSES BASIS)

The discussion below is on a combined businesses basis (see basis of preparation).

Profit before tax on a combined businesses basis was £499 million, or 31 per cent, lower at £1,104 million in the half-year to 30 June 2011 compared to £1,603 million in the half-year to 30 June 2010. This reflected the absence in 2011 of £423 million of gains from liability management exercises which had benefited the first half of 2010, and £236 million of mark-to-market losses arising from the equity conversion feature of the Group's Enhanced Capital Notes in the first half of 2011, compared to gains of £192 million in the first half of 2010.

Net interest income was £533 million, or 8 per cent, lower at £6,378 million in the half-year to 30 June 2011 compared to £6,911 million in the half-year to 30 June 2010, as a result of a reduction in interest-earning assets as the Group's targeted balance sheet reduction takes effect as well as subdued lending demand and continued customer deleveraging, continued high wholesale funding costs, a competitive deposit market and the effect of refinancing a significant amount of government and central bank facilities.

Other income was £1,833 million, or 31 per cent, lower at £3,998 million in the half-year to 30 June 2011 compared to £5,831 million in the half-year to 30 June 2010. However, other income in the half-year to 30 June 2011 included losses on sale of treasury assets, as part of the Group's targeted balance sheet reduction (although there is little impact on profit before tax, since these losses were largely offset by an accelerated fair value unwind) and £236 million of mark-to-market losses arising from the equity conversion feature of the Group's Enhanced Capital Notes; whereas there were mark-to-market gains on the equity conversion feature of £192 million in the half-year to 30 June 2010 as well as gains of £423 million from liability management exercises, which were not repeated in 2011.

Insurance claims were £63 million, or 24 per cent, lower at £198 million in the half-year to 30 June 2011 compared to £261 million in the half-year to 30 June 2010 mainly reflecting lower unemployment claims combined with favourable experiene on the home book as the freeze events in January 2011 were less severe than those of January 2010.

Costs were £253 million, or 5 per cent, lower at £5,332 million in the half-year to 30 June 2011 compared to £5,585 million in the half-year to 30 June 2010. This reduction reflects the absence in the half-year to 30 June 2011 of the £150 million charge in relation to impairment of tangible fixed assets incurred in 2010, together with further integration-related savings and lower levels of operating lease depreciation in Wholesale, partially offset by increased employers' National Insurance contributions, and higher sales tax, inflation and other costs

The impairment charge was £1,132 million, or 17 per cent, lower at £5,422 million in the half-year to 30 June 2011 compared to £6,554 million in the half-year to 30 June 2010, with higher charges in Ireland and Australasia more than offset by improvements elsewhere in the Group, particularly the substantial fall in the Wholesale division's impairment charge compared to the first half of 2010.

Retail's impairment charge reduced by 12 per cent, driven by the unsecured portfolio, supported by prudent risk management, improved business quality, and a stabilising economy.

The Wholesale impairment charge reduced from £2,801 million in the first half of 2010 to £1,557 million in the first half of 2011. The decrease in this period has continued to be primarily driven by lower impairment from the HBOS heritage corporate real estate and real estate related asset portfolios, together with the stabilising UK and US economic environment in 2010 and so far in 2011 a low interest rate environment helping to maintain defaults at a relatively lower level. This was partly offset by increased impairment on leveraged acquisition finance exposures.

LLOYDS BANKING GROUP PLC

The Commercial impairment charge reduced from £190 million in the first half of 2010 to £160 million in the first half of 2011, due to an increase in the overall quality of the portfolio and the stabilisation of the UK economy.

In Wealth and International, impairment charges totalled £2,532 million, an increase of 14 per cent from £2,228 million in the first half of 2010. This was predominantly as a result of our Irish portfolio where the Group has allowed for further falls in commercial real estate prices, as well as weakness in the Australasian portfolio, where the Group has significant geographical and sector concentrations; the Group also took a charge of £70 million in the first half of 2011 as a result of losses arising from the earthquake in New Zealand.

The share of results of joint ventures and associates was a credit of £12 million in the half-year to 30 June 2011 compared to a loss of £62 million in the half-year to 30 June 2010.

The fair value unwind was £345 million, or 26 per cent, higher at £1,668 million in the half-year to 30 June 2011 compared to £1,323 million in the half-year to 30 June 2010. This principally reflected an accelerated fair value unwind of £649 million in relation to the treasury asset sales, partly offset by a reduced credit to the impairment charge due to lower impairment charges on the heritage HBOS Wholesale portfolios.

LLOYDS BANKING GROUP PLC

DIVISIONAL PERFORMANCE (UNAUDITED)

RETAIL

Key highlights

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

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

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

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

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

- Customer deposit growth continued during the first half of 2011, with balances increasing by £6.7 billion, or 3 per cent, from 31 December 2010. This growth was largely driven by strong UK tax-free cash Individual Savings Account (ISA) balance growth where Retail achieved growth greater than its share of balances outstanding.

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

LLOYDS BANKING GROUP PLC

RETAIL (continued)

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

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

LLOYDS BANKING GROUP PLC

RETAIL (continued)

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

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

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

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