Lloyds Banking Group plc
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SECURITIES AND EXCHANGE COMMISSION
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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 2010

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 2010

re: 2010 Interim Results

2010 Interim Results

News Release

Lloyds Banking Group plc

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the half-year ended 30 June 2010.

Statutory basis
Statutory results are set out on pages 90 to 124. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2010 interim results with 2009 is of limited benefit.

Combined businesses basis

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

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

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

FORWARD LOOKING STATEMENTS

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

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Key highlights

I am delighted to announce our first half results which demonstrate the strength of the Group's core businesses. The Group has significant opportunities for growth and I am confident that our customer-based relationship strategy will continue to deliver value for both customers and shareholders in the coming years.

J Eric Daniels
Group Chief Executive

RETURN TO PROFITABILITY

· **The Group returned to profitability on a combined businesses basis with profit before tax of £1,603 million** (first half of 2009: £3,957 million loss).

· **Statutory profit before tax was £1,296 million** (first half of 2009: £5,950 million which included the £11,173 million gain on acquisition of HBOS).

BUILDING A STRONG BUSINESS

· **Robust gross lending to support the UK's economic recovery** with the Group extending £14.9 billion of gross new mortgages to UK homeowners and £23.7 billion of committed gross lending to UK businesses.

· **Strong trading performance** against the backdrop of a stabilising economy. The Group delivered good revenue growth, lower costs and a significant reduction in impairment whilst continuing to build our customer franchises. Our cost:income ratio also saw further improvement to 43.5 per cent.

· **Total income, net of insurance claims, increased by 5 per cent to £12,481 million** which included a gain of £423 million (first half of 2009: £745 million) as a result of the Group's liability management transactions. Excluding the impact of liability management transactions income was 8 per cent higher.

· **Banking net interest margin improved** to 2.08 per cent in the first half of the year, compared to 1.72 per cent in the first half of 2009 and 1.83 per cent in the second half of 2009, as higher asset pricing and compression of the spread between base rate and LIBOR more than offset the impact of lower overall deposit margins.

· **Integration ahead of schedule and we remain on track to deliver £2 billion synergy run-rate by the end of 2011**. Increased annualised run-rate savings of c£1,300 million expected by the end of 2010.

· **Total impairments significantly lower than originally envisaged at £6,554 million** (first half of 2009: £13,399 million).

· **Balance sheet reduction plans on track**. In the first half of 2010 we achieved further reductions of £23 billion and remain on track to deliver our targeted balance sheet reductions of £200 billion.

· **Strong capital position and good progress on funding.** Core tier one capital improved to 9.0 per cent. The Group has reduced its overall reliance on wholesale funding (and further reductions are planned) and maintained its

prudent maturity profile.

DELIVERING HIGH QUALITY SUSTAINABLE GROWTH

- **Strategy: significant opportunity exists to leverage our customer focused relationship-led model across the enlarged franchise.**

- **Outlook: We expect to deliver strong medium-term performance** as the UK economy sees a gradual recovery.

SUMMARY OF RESULTS

Results	**Half-year to 30 June 2010 £m**	Half-year to 30 June 2009 £m	***Change since 30 June 2009 %***	Half-year to 31 Dec 2009 £m
Statutory				
Total income, net of insurance claims	**12,591**	9,798	***29***	13,480
Total operating expenses	**(5,811)**	(6,464)	***10***	(9,520)
Trading surplus	**6,780**	3,334	***103***	3,960
Impairment	**(5,423)**	(8,053)	***33***	(8,620)
Gain on acquisition	**-**	11,173		-
Profit (loss) before tax	**1,296**	5,950	***(78)***	(4,908)
Profit (loss) attributable to equity shareholders	**596**	7,095		(4,268)
Earnings per share	**0.9p**	22.0p		(9.9)p
Combined businesses basis (note 1, page 55)				
Total income, net of insurance claims	**12,481**	11,939	***5***	12,025
Banking net interest margin	**2.08%**	1.72%		1.83%
Operating expenses	**(5,435)**	(5,718)	***5***	(5,891)
Cost:income ratio	**43.5%**	47.9%		49.0%
Trading surplus	**6,896**	6,221	***11***	6,134
Impairment	**(6,554)**	(13,399)	***51***	(10,589)
Profit (loss) before tax	**1,603**	(3,957)		(2,343)

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

GROUP CHIEF EXECUTIVE'S STATEMENT

Summary

The first half of 2010 was a significant milestone for Lloyds Banking Group as the Group returned to profit. Despite the challenging economic environment, the core businesses performed strongly and we continued to see positive momentum across all of the key income statement line items: income, margins, costs and impairments and an extension of the positive business trends established in 2009. Given the business model we have established, coupled with the gradual recovery in economic growth in the UK, we continue to believe that the Group is well positioned to deliver a strong financial performance over the coming years.

Results overview

On a statutory basis, the Group delivered a profit before tax of £1.3 billion in the first half of 2010.

On a combined businesses basis, the Group reported a £1.6 billion profit for the first six months of the year, compared to a £4.0 billion loss in the first half of 2009. Our total income, net of insurance claims, rose 5 per cent, primarily driven by a strong performance in Retail, whilst costs fell 5 per cent. This led to an 11 per cent uplift in the trading surplus, and a further improvement in our cost:income ratio to 43.5 per cent. There was a significant decrease in impairments, which were 51 per cent lower than the first half of 2009, at £6.6 billion, with improvements in Wholesale and Retail.

Customers at the core of our strategy

Our customer relationship focus remains at the heart of our business strategy and acquiring and deepening customer relationships is fundamental to this. It is pleasing therefore that we have continued to see strong progress in our customer relationship franchises, with good levels of profitable growth and strong new business flows.

In Retail, we opened 880,000 current accounts and 2.6 million new savings accounts, which are important drivers for future growth, and attracted £6.6 billion in retail deposits.

We are actively supporting the UK's economic recovery by lending to our business and mortgage customers. During the first half the Group extended £14.9 billion of gross new mortgages to UK homeowners (including £2.5 billion in new lending to first-time buyers), and £23.7 billion of committed gross lending to UK businesses (of which £5.7 billion was for SMEs). The Group is committed to helping 100,000 start-ups per year over the next three years and is currently approving four in five lending applications from SME customers. As a result of this we are pleased to report that we are currently ahead of our lending commitments made to the UK Government.

In the Wealth and International division, we built on the momentum of last year, delivering an annualised 12 per cent increase in Wealth relationship customers. In Insurance, despite the continuing difficult market conditions we made good progress in improving the customer propositions and the profitability of key products in our life, pensions and investments offering.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Integration

The integration of the two businesses, one of the largest ever undertaken in the UK, continues to progress well. We have achieved a cost synergy run-rate of £1,084 million by the end of June and are on track to deliver our targeted £2 billion synergy run-rate by the end of 2011. The key programmes we have put in place to date include: rationalising our businesses to eliminate areas of duplication; developing a common systems platform; leveraging our procurement skills; and re-aligning our property requirements. Through the significant focus on operational workstreams, we will create a more efficient and effective organisation and our customers will see the benefit of greater investment in systems and the business.

Balance sheet

Our balance sheet reduction plans are on track and we reduced our assets by a further £23 billion in the first half of the year bringing the total reduction to £83 billion since acquisition. We remain focused on reducing the size of our balance sheet and expect to deliver a further £117 billion reduction in assets in line with our guidance of a £200 billion reduction by 2014.

Strong capital position

We have further strengthened our capital ratios and at the half-year the Group's core tier 1 ratio increased to 9.0 per cent (December 2009: 8.1 per cent) which is substantially in excess of regulatory requirements. This is the result of a number of liability management exercises undertaken during the first six months of the year, lower risk-weighted assets and a good business performance. Our tier 1 ratio now stands at 10.3 per cent and our total capital ratio is 13.4 per cent.

Good progress on funding and liquidity

Good progress continues to be made on funding and liquidity and we have reduced our reliance on wholesale funding by £15 billion to £311 billion in the first half of the year. The Group continued to widen its diverse range of funding sources and has also maintained the maturity profile of its funding.

Economic outlook

We continue to believe that a gradual recovery over the next couple of years remains the most likely outcome for the economy. We believe that GDP growth will recover to 1.3 per cent in 2010 with a further increase to 2.1 per cent in 2011. We expect that UK house prices will remain static in 2010 with a modest increase of 3 per cent in 2011 and we also expect some recovery in commercial property prices with 6 per cent growth this year and 2 per cent next year. Finally, we believe that unemployment and corporate failures will peak in 2010, and at lower rates than during the last recession.

Regulatory environment

The Group, like all other financial institutions, is operating in an evolving and more demanding regulatory environment. We welcome the opportunity to actively engage with our regulators on many of the issues facing the industry and support the many positive aspects of the pending regulatory reform around markets, prudential regulation and customer engagement. The industry must continue to work with the regulators to find the balance between regulatory reform and the recovery of the banking sector and wider economy.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Our people

Our staff have continued to perform extraordinarily in the first half of 2010 as the Group continues to serve and support our customers in a difficult environment, while delivering one of the largest banking mergers in history. The strong core business performance and positive momentum being seen in the business are due to the significant contribution of our staff. The Board and myself are very appreciative of this.

The future

The Group's aim is to be recognised as the UK's best financial services business and to deliver sustainable value through the cycle for our customers and shareholders. The principal element of the Group's strategy remains the focus on building deep, long-lasting customer relationships in all its franchises. We continue to support this with a focus on driving down costs and maintaining effective capital management disciplines, within a strong, prudent risk management framework. Based on our economic outlook and the current regulatory context we would expect to see a smaller, more productive balance sheet and are expecting returns on equity of more than 15 per cent over the medium to longer term.

J Eric Daniels

Group Chief Executive

COMBINED BUSINESSES INFORMATION

The analysis and commentary that is set out on pages 7 to 63 is presented on a combined businesses basis. The basis of preparation of the combined businesses results is set out on page 55.

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COMBINED BUSINESSES CONSOLIDATED INCOME STATEMENT

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

The basis of preparation of the combined businesses income statement is set out on page 55.

RECONCILIATION OF COMBINED BUSINESSES PROFIT (Loss) BEFORE TAX TO STATUTORY PROFIT (loss) BEFORE TAX FOR THE PERIOD

	Half-year to 30 June 2010 £ million	Half-year to 30 June 2009 £ million	Half-year to 31 Dec 2009 £ million
Profit (loss) before tax - combined businesses	**1,603**	(3,957)	(2,343)
Integration costs	**(804)**	(358)	(738)
Volatility (note 5, page 61)	**(199)**	(591)	1,069

Government Asset Protection Scheme fee	**-**	-	(2,500)
Negative goodwill credit	**-**	11,173	-
Amortisation of purchased intangibles and goodwill impairment	**(323)**	(604)	(389)
Curtailment gain (note 4, page 104)	**1,019**	-	-
Pre-acquisition results of HBOS plc	**-**	280	-
Insurance grossing adjustment	**-**	7	(7)
Profit (loss) before tax - statutory	**1,296**	5,950	(4,908)

COMBINED BUSINESSES PROFIT (LOSS) ANALYSIS BY DIVISION

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

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE AND OUTLOOK

During the first half of 2010, the Group delivered a strong trading performance against the backdrop of a stabilising economy. The Group delivered good revenue growth, lower costs, and a significant reduction in impairment. Impairment, particularly in the Wholesale division, has fallen faster than originally expected and as a result the Group has returned to profitability on a combined businesses basis in the first half of 2010. Importantly for the future of the enlarged entity, the Group has continued to make excellent progress in the integration of HBOS. On a combined businesses basis, the Group reported a profit before tax of £1,603 million in the first half of 2010, compared to a loss before tax of £3,957 million in the first half of 2009.

Statutory profit before tax in the first half of 2010 was £1,296 million, compared to £5,950 million in the first half of 2009 which benefited from the impact of an £11,173 million credit from the gain arising on the HBOS acquisition (negative goodwill). Profit attributable to equity shareholders was £596 million and earnings per share totalled 0.9 pence.

In line with the full year 2009 announcement and to enable meaningful comparisons to be made with prior periods, the income statement commentaries below are on a combined businesses basis (see 'basis of presentation'). Certain commentaries also exclude the unwind of fair value adjustments.

A good revenue performance

The Group delivered a good revenue performance in the first half of 2010. Total income, net of insurance claims, was 5 per cent higher at £12,481 million whichincluded a gain of £423 million as a result of the Group's liability management exercises (first half of 2009: £745 million). Excluding the impact of liability management transactions income was 8 per cent higher.

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

In Wholesale, total income decreased by 6 per cent driven by a decrease in net interest income reflecting lower interest-earning asset balances following the disposal of debt securities and available-for-sale assets and reduced interest earnings in Treasury and Trading. This was partially offset by an increase in the banking net interest margin as lending business continues to be re-priced to reflect customer risk profiles.

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

New business sales in our life, pensions and investments businesses decreased by 14 per cent, largely reflecting the withdrawal of certain HBOS legacy products with lower returns, partially offset by higher sales of OEICs and higher margin protection products.

However, as a result of the continuing repositioning of the product set, integration activities, and higher returns from retirement income products in the first half of 2010, UK new business profit increased by £53 million to £132 million. The Insurance division's EEV new business margin increased to 3.4 per cent in the first half of 2010, compared to 2.4 per cent in the first half of 2009.

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

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

Group net interest income increased by £469 million, or 7 per cent, to £6,911 million. The net interest margin from our banking businesses was 36 basis points higher at 2.08 per cent, as higher asset pricing and compression of the spread between base rate and LIBOR more than offset the impact of lower deposit margins, due to continued low base rate and ongoing competition for customer balances. We had previously outlined that we expected the net interest margin to increase to circa 2 per cent for 2010, and have achieved this margin improvement in the first half. We expect the margin to see further modest improvement in the second half. We previously guided that we expect further margin improvements in subsequent years reflecting the impact of continued improvements in asset pricing, moderate base rate rises and greater stability in wholesale funding markets. We now believe that the margin is likely to return to more than 2.5 per cent in the medium-term (circa 2014). This margin outlook reflects our core economic assumptions for the medium term and includes the impact of the Group's asset reduction programme and the assumed costs of refinancing as wholesale funding matures.

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

Over time, income from our core businesses is expected to grow at 6-7 per cent per year. In 2009 approximately 80 per cent of underlying income, excluding gains on liability management transactions, came from core relationship businesses. Such income growth will be partially offset by the impact of the rundown of non-relationship assets and the effect of the retail business disposal.

Total Group banking assets decreased to £704 billion from £727 billion at 31 December 2009, with a £15 billion decrease in loans and advances to customers primarily driven by reductions in non-relationship lending portfolios across the three banking divisions. Our balance sheet reduction plans are on track and we are pleased with the progress made in the period as market conditions were more difficult than the latter part of 2009, and we continued to achieve asset sales within our provision levels. Customer deposits have increased by 3 per cent since 31 December 2009 to £420 billion with growth being seen across all three deposit taking divisions.

Strong cost management delivering benefits

The Group has an excellent track record in managing its cost base, and has continued to deliver a strong cost performance. During the first half of 2010, operating expenses decreased by 5 per cent to £5,435 million, as substantial integration related savings were captured, together with lower levels of operating lease depreciation. After investment, ongoing business as usual expenses were held within inflationary levels. Our cost:income ratio also saw further improvement to 43.5 per cent (45.1 per cent excluding gains from liability management transactions).

We have already made significant progress in capturing savings from the integration programme with £650 million of cost synergy savings being realised in the first half of 2010, and the annual run-rate savings totalled £1,084 million as at 30 June 2010. The Group expects to end 2010 with annual run-rate savings of circa £1,300 million and is on track to deliver a run-rate of £2 billion per annum of cost synergies and other operating efficiencies by the end of 2011. The Group expects the cost:income ratio to reduce to approximately 40 per cent in the medium term.

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

Impairment levels significantly lower than originally envisaged

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

In Retail, impairment losses decreased by £857 million, or 39 per cent, to £1,335 million, particularly reflecting prudent risk management, stabilising house prices and the benefit of continued low interest rates. Impairment losses as a percentage of average loans and advances to customers improved to 0.72 per cent in the first half of 2010 compared to 1.15 per cent in the first half of 2009. Secured impairment losses reduced to £53 million while unsecured impairment losses reduced to £1,282 million. As house prices have recovered the proportion of the mortgage portfolio with an indexed loan-to-value of greater than 100 per cent has decreased and now accounts for 9.5 per cent (31 December 2009: 13.0 per cent). More importantly the value of the portfolio with an indexed loan-to-value greater than 100 per cent and more than three months in arrears has fallen nearly £1.5 billion and is now £2.5 billion, representing 0.7 per cent of the portfolio, down from 1.1 per cent in the first half of 2009. The number of mortgage customers new to arrears has also stabilised in the last twelve months, and is now well below the peak experienced in the second half of 2008. We expect to see modest reductions in Retail impairment charges in the second half of 2010. During 2011 as the UK economic environment improves and house prices continue to stabilise further impairment improvements will be delivered, but this improvement is expected to be at a significantly slower rate than the last year.

The Wholesale charge for impairment losses also fell significantly from £9,738 million in the first half of 2009 to £2,991 million in the first half of 2010. Impairment losses as a percentage of average loans and advances to customers improved to 2.85 per cent in 2010 compared to 6.87 per cent in the first half of 2009. The decrease in this period generally reflects action taken in 2009, the stabilising economic environment and continuing low interest rates. We continue to expect the volume of underlying impairment losses from traditional trading and manufacturing businesses to increase during 2010, as the full impact of economic conditions filters into business insolvencies and asset values. This is a typical lag effect, observed in previous recessions, as the economy passes through, and out of, a recession. However the effects of this are expected to be significantly less than the benefit of lower absolute impairments from the HBOS Corporate Real Estate and HBOS (UK and US) Corporate portfolios. Depending upon UK economic conditions, notably future commercial real estate price stability and the continuation of low interest rates, and the performance of individually large exposures, we would expect to see a modest reduction in second half impairment, compared to the first half of 2010, with further reductions in 2011. We remain vigilant in monitoring changes in economic conditions and to individual lending positions and continue to invest heavily in expert resource to work with customers to restructure their businesses on to sustainable bases, thus protecting employment where possible.

In Wealth and International, impairment charges totalled £2,228 million, up 52 per cent on £1,469 million in the first half of last year but down 15 per cent on the £2,609 million charge in the second half of last year. The level of losses

continues to be dominated by the economic environment in Ireland. We expect to see further reductions in the Wealth and International impairment charge in the second half of 2010, although economic conditions continue to be monitored closely, particularly in Ireland.

Overall at a Group level we believe that, based on our current economic assumptions, impairment losses will fall moderately in the second half of 2010 with further meaningful reductions in 2011 and beyond. As economic conditions improve we expect the overall Group impairment charge as a percentage of average loans and advances to customers will improve towards an expected 50-60 basis points by around 2014.

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

Strong capital ratios

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

The improvement in the capital ratios reflects balance sheet liability management transactions, lower risk-weighted assets and the improved underlying performance. A number of balance sheet liability management transactions were undertaken in spring 2010 which resulted in holders of certain securities swapping these for common equity. A profit of £423 million was recognised as a result (compared to £745 million for similar transactions in the first half of 2009).

Risk-weighted assets have reduced by 6 per cent to £463 billion as a consequence of balance sheet reductions, tighter risk criteria for new business and the improved credit outlook. Over the medium term, we continue to expect to see further reductions in the Group's risk-weighted assets as a result of both balance sheet asset reductions and a positive procyclical impact from the expected improvement in the UK economic environment.

Through the implementation of capital management and restructuring initiatives implemented during the first half of 2010, we have repatriated £2 billion of core tier 1 capital from the insurance companies to the banking companies. Whilst this has no overall impact on the Group's core tier 1 capital under current Basel regulations, the initiatives deliver a material reduction in the impacts of the potential capital reforms announced by the Basel Committee on Banking Supervision in December 2009, and updated in July 2010.

We note the various recently issued regulatory capital consultation papers and impact studies and will continue to work to ensure that robust levels of capital are maintained as the ongoing capital requirements for banks continue to change.

Rightsizing the balance sheet

In the Group's interim results announcement last year, we set out our strategy to reduce non-relationship assets, including business which is outside our current risk appetite, by some £200 billion by the end of 2014 from the non-relationship asset pool of £300 billion. It continues to be our intention to manage these assets for value and, given the current economic climate, our primary focus remains on running these assets down over time. During 2009, reductions of £60 billion were achieved. In the first half of 2010 we achieved additional reductions of £23 billion.

We continue to expect to achieve a further reduction in non-relationship assets of approximately £117 billion over the next few years. The running down of these portfolios is not expected to have a significant impact on the Group's financial performance over the medium term. In addition, we continue to progress plans to execute the divestment of retail assets and liabilities in line with our state aid obligations.

As we have guided previously, the balance sheet reduction over time will provide the Group with increased optionality and flexibility from the resultant releases in both funding and capital. These benefits continue to be incorporated into the Group's overall business plans. Together with initiatives to increase customer deposits in line with market growth, we will reduce the proportion of the Group's funding that is derived from wholesale markets and eliminate our use of public and central bank facilities by the end of 2012. This will provide capacity for core business growth in line with our relationship strategy.

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

A strengthened liquidity and funding position

The Group has made good progress against its funding objectives and further enhanced its liquidity position which is supported by our robust and stable customer deposit base.

The Group has continued to reduce its reliance on short-term wholesale funding. During the first half of the year the absolute level of Group wholesale funding fell to £311 billion, from £326 billion at the end of 2009, reflecting a combination of good retail customer deposit growth and a reduction in non-relationship balance sheet assets. Over the next four years, we expect the combination of customer deposit growth and balance sheet reduction to significantly reduce the Group's wholesale funding requirement.

The tenor of the Group's wholesale funding base has also proved to be resilient with the Group maintaining its maturity profile of wholesale funding, such that at 30 June 2010 approximately 49 per cent of wholesale funding had a maturity date greater than one year. Over time, and as we see improvements in the capacity of wholesale funding markets, we expect to maintain the amount of the Group's wholesale borrowings with a maturity date greater than one year in excess of 40 per cent. We note continuing regulatory consultations relating to liquidity requirements which could require banks to manage their liquidity risk differently and we continue to respond to evolving requirements.

As previously guided, over the next couple of years the Group expects its public capital and senior funding issuance to be £20 billion to £25 billion per annum. We have made good progress on our 2010 term funding issuance plans, having already completed some £18 billion of our planned term issuance for the year. In addition, during the first half of the year, the Group completed a further £8 billion of term funding via a series of privately placed funding transactions. The Group continues to benefit from a diversity of funding sources, which have been enhanced by the establishment of a US Medium Term Note programme and a second regulated covered bond programme, and the first public US$ tranche of RMBS by a UK issuer since 2008.

The Group's overall liquidity support from public and central bank sources reduced by £25 billion to £132 billion during the first half of 2010. A significant proportion of the remaining balance, including all the Special Liquidity Scheme and Credit Guarantee Scheme facilities, matures over the course of the next couple of years although the Group's balance sheet reduction plans and deposit strategy will avoid the necessity to refinance much of this. Overall, based on expected spreads and balance sheet mix, we continue to believe that the increased cost of wholesale funding over the next few years will negatively impact the Group's net interest margin by less than 10 basis points, and this cost is expected to be more than offset by the impact of improved product pricing.

Increases in customer deposits and the reduction in assets set out above mean that we expect to see a steady improvement in the Group's loan to deposit ratio. The Group does not set a target for this ratio, which we believe does

not reflect either the quality of lending or the term of deposits held, but would expect to see it return to legacy Lloyds TSB levels of approximately 140 per cent or lower over the next few years. During the first half of 2010 the ratio, excluding repos, improved to 163 per cent, from 169 per cent at the 2009 year end.

Lending to homeowners and businesses

The Group continues to actively support the UK economy by lending to UK households and businesses. In the first half of 2010, we have extended £14.9 billion of gross new mortgage lending and £23.7 billion of committed gross lending to businesses, of which £5.7 billion was for SMEs.

Under the terms of our lending commitments to the UK Government, we agreed to make available gross new lending of £67 billion in the 12 months to March 2011, of which £23 billion would be extended to homeowners and £44 billion to UK businesses. In the four months from 1 March to 30 June 2010, we have extended lending that qualifies under the programme totalling £8.4 billion to UK homeowners and £17 billion to UK businesses, of which £4.1 billion has been extended to SMEs.

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

Acquisition related balance sheet adjustments

Profit before tax includes the unwind of £1,323 million of acquisition related fair value adjustments. In the second half of 2010, we currently expect a further benefit of some £1.2 billion broadly in line with previous guidance. Thereafter, over the medium term, declining annual benefits are expected to accrue.

Volatility

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 impact of investment market volatility can be significant. In the first half of 2010, lower equity market returns compared to our long-term assumptions have contributed to negative insurance and policyholder volatility totalling £199 million.

Taxation

The UK Government's June 2010 Budget included a number of tax changes that will impact the Group including legislation to reduce the rate of corporation tax over time and the proposed introduction of a bank levy from 1 January 2011. Further detail on these changes is included in note 25 on page 123.

The tax charge for the half-year to 30 June 2010 was £630 million, representing an effective tax rate of 48.6 per cent. The effective tax rate is higher than the UK statutory rate primarily due to losses in Ireland taxed at lower rates and the non-recognition of the related deferred tax asset.

Pension changes

The Group implemented changes to the terms of its principal UK defined benefit pension schemes in the first half of 2010. As a result of these changes, the amount of any future salary increases that will be deemed pensionable will be capped each year at the lower of: Retail Prices Index inflation; each employee's actual percentage increase in pay; and 2 per cent of pensionable pay. The effect of this change was to reduce the Group's retirement benefit obligations recognised on the balance sheet by £1,019 million with a corresponding curtailment gain recognised in the income statement.

Summary

We have continued to make strong progress in the first half of 2010 with the result that the Group is now profitable on a combined businesses basis, capital ratios are stronger and funding is well placed. Overall, therefore, based on our current projection of a slow but steady UK economic recovery and current regulatory context, we believe the Group has strong medium-term prospects.

Tim Tookey

Group Finance Director

COMBINED BUSINESSES SEGMENTAL ANALYSIS

Half-year to 30 June 2010	Retail £m	Wholesale £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	4,636	2,147	596	(136)	(332)	6,911
Other income	836	2,215	605	1,320	855	5,831
Total income	5,472	4,362	1,201	1,184	523	12,742
Insurance claims	-	-	-	(261)	-	(261)
Total income, net of insurance claims	5,472	4,362	1,201	923	523	12,481
Costs:						
Operating expenses	(2,233)	(1,882)	(744)	(423)	(153)	(5,435)
Impairment of tangible fixed assets	-	(150)	-	-	-	(150)
	(2,233)	(2,032)	(744)	(423)	(153)	(5,585)
Trading surplus	3,239	2,330	457	500	370	6,896
Impairment	(1,335)	(2,991)	(2,228)	-	-	(6,554)
Share of results of joint ventures and associates	8	(60)	(2)	(10)	2	(62)
Profit (loss) before tax and fair value unwind	1,912	(721)	(1,773)	490	372	280
Fair value unwind[1]	583	1,463	164	(21)	(866)	1,323
Profit (loss) before tax	2,495	742	(1,609)	469	(494)	1,603
Banking net interest margin[2]	2.44%	1.85%	1.65%			2.08%
Cost:income ratio[3]	40.8%	43.1%	61.9%	45.8%		43.5%
Impairment as a % of average advances (annualised)[4]	0.72%	2.85%	6.56%			2.01%

Key balance sheet and other items As at 30 June 2010	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	368.0	186.0	57.6		0.5	612.1
Customer deposits	230.7	159.2	30.3		0.2	420.4
Risk-weighted assets	106.8	280.7	59.3	1.7	14.7	463.2

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

(2) The calculation basis for banking net interest margins is set out in note 2 on page 57.

(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.

COMBINED BUSINESSES SEGMENTAL ANALYSIS (continued)

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

Key balance sheet and other items As at 30 June 2009	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	376.7	216.4	58.6		0.9	652.6
Customer deposits	218.5	180.9	29.7		-	429.1
Risk-weighted assets	131.3	287.9	57.9	1.4	4.0	482.5

COMBINED BUSINESSES SEGMENTAL ANALYSIS (continued)

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

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

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DIVISIONAL PERFORMANCE

RETAIL

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

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

RETAIL (continued)

Key highlights

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

· **Profit before tax and fair value unwind increased to £1,912 million,** a strong increase of £1,839 million compared to the first half of 2009, driven by good income growth, tight cost control and a significantly lower impairment charge.

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

· **Operating expenses remain tightly controlled decreasing by 5 per cent,** which combined with strong income growth led to a significant reduction in the cost:income ratio to 40.8 per cent. Operating expenses benefited from ongoing cost control and cost synergies.

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

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

· **Customer deposit growth continued to strengthen during the first half of 2010,** with balances increasing by £6.6 billion, or 3 per cent, from 31 December 2009. This growth was predominantly from instant access and tax free ISA accounts rather than more expensive term deposits.

· **Good progress has been made building deep and enduring customer relationships.** Retail has implemented a range of initiatives to support the strategy including service developments such as the new Lloyds TSB internet and mobile banking platform which has improved functionality and increases the opportunity for future service development. Simple and transparent products such as Halifax's Clarity Card, which has a single interest rate and no usage fees, have been developed to support deeper customer relationships.

RETAIL (continued)

Strategic vision

Retail's goal is to be recognised by customers as the UK's best bank. This will be achieved by building deep and enduring customer relationships which deliver real value to customers. This strategy will drive sustainable long-term value for all stakeholders. This strategy is based on a deep understanding of Retail's customers and their needs combined with highly efficient and effective processes which allow more investment in products and services that customers really value. The Group is increasing its capabilities through the integration of Lloyds TSB and HBOS which presents a great opportunity to select the best from each heritage and significantly improve systems and processes. This includes extending Lloyds TSB's strong customer insight capabilities to Halifax and Bank of Scotland. Success in these areas will be reflected in enhanced customer service resulting in strong customer advocacy which in turn leads to lower customer acquisition costs, increased product take-up and improved customer retention.

Progress against strategic initiatives

Deep and enduring customer relationships

The strategy is to build deep and enduring relationships so that customers choose Retail's relationship brands (Lloyds TSB, Halifax and Bank of Scotland) for more of their financial needs. Through offering a broad range of products that address real customer needs, alongside superior customer service and advice, Retail will help customers to build a secure financial future.

As part of this strategy Retail has focused on increasing the number of customers who choose to use one of the relationship brands as the provider of their main current account. During the last six months, the number of customers using Retail as their main current account provider (measured by a monthly account turnover of at least £1,000, as a proxy) has increased by 6 per cent. Retail has implemented a series of initiatives to help promote and further develop these quality relationships including development of the leads systems, advisor training and new advisor incentives.

Development of deep and enduring relationships is supported by the creation of products and services that customers value and by continually improving customer services. Advances in these areas are highlighted in the following sections.

Creating products and services that customers value

A focus on customers, including active use of Retail's strong customer insight capability, ensures that processes, products and services are truly customer-led and are distinctive in a highly competitive market. Retail has a strong record of award-winning products and services.

Retail's focus on simple, transparent products which are easy to understand is characterised by new products such as Halifax's recently launched Clarity Card. The card has been introduced with a single customer interest rate and no usage fees including for balance transfers, cash withdrawal and international usage. It has already received very positive reviews from customers and consumer groups and is leading the competition for simplicity and clarity.

The Group is committed to supporting the housing market and to finding new ways to help customers own their own homes and, in the case of first time buyers, to get on the housing ladder. Last year saw the successful launch of the 'Lend a Hand' mortgage, which allows friends and family to contribute to a savings account supporting a mortgage. The concept has recently been extended to home movers to make it easier for them to 'trade-up'.

RETAIL (continued)

Retail continues to develop new savings products that directly address customer needs and concerns. For example the new Halifax Guaranteed Saver Reward account rewards loyal customers with a premium if they fund their current account with £1,000 each month or have an Ultimate Reward Current Account. Retail has also introduced an in-branch savings health check, which helps customers review their savings plans to make sure that they are making the most of the savings products on offer, saving regularly where appropriate and making full use of their tax-free allowance.

Improving productivity and continually improving customer service

Retail continues to benefit from the opportunities afforded by its heritage businesses and is taking the best from the Lloyds TSB and HBOS franchises to create 'one best way' of doing things. This integration, together with changes in working practices, will deliver significant increases in efficiency which will allow further investment in the products and services that customers really value.

Customers are increasingly making use of Retail's multi-channel offer with more than 60 per cent choosing to use internet, mobile or telephony for service, in addition to the branch. Retail is investing in customer service improvements across each of these channels. For example, a new internet platform has been rolled out to Lloyds TSB customers during the first half of 2010. Not only does this platform offer significantly improved functionality but it also provides a flexible platform to increase the range of services offered to customers via the internet. A number of further developments are in the pipeline. Halifax and Bank of Scotland customers will migrate onto this common digital banking platform in 2011.

However customers choose to do their banking, Retail is working to ensure they receive a high level of service. For example in telephone banking, multi-skilling is being used to ensure that customer requests can be dealt with as efficiently as possible avoiding customers being passed from one advisor to another while also significantly increasing call handling capacity.

Mobile banking is a key growth area, and Retail is investing in this area to make financial services more accessible and to increase the range of options available to customers to manage their money. More than 800,000 current account customers with Lloyds TSB, Halifax and Bank of Scotland have already registered for free text alerts. In addition Lloyds TSB has launched a mobile banking application that allows customers to manage their money on the move, including transferring funds between accounts via their mobiles.

Retail continues to work at responding rapidly to customer demands. For example, during the disruption from the volcanic ash clouds, Retail took a series of actions to help customers who had been affected. This included extending overdrafts and credit card limits to enable customers to make alternative travel arrangements as well as waiving the fees for credit and debit card customers who went over their limit due to the disruption. In addition cover on a range

of insurance policies was extended and in the space of 48 hours, 6 million text messages were sent to insurance customers to advise them of the help Retail could provide.

RETAIL (continued)

Integration

The Retail integration programme is ahead of schedule, with the synergies annual run-rate totalling £423 million at 30 June 2010. These synergies have been achieved through procurement savings, site consolidation and streamlining of management structures.

One example of the benefits resulting from the integration is the single investment and protection sales and servicing platform. This platform is being rolled out across all heritage businesses and delivers a powerful new tool for Retail's financial advisors helping them to advise customers with a broader range of products and allowing more immediate processing.

By removing duplicate IT platforms, Retail is making it significantly cheaper and simpler to introduce products and services that customers value in the future.

Financial performance

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

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

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

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

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

Total income is analysed as follows:

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

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

RETAIL (continued)

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

Operating expenses remained tightly controlled, decreasing by 5 per cent, reflecting ongoing cost control and synergies from the integration. The cost:income ratio improved to 40.8 per cent compared to 50.9 per cent in the first half of 2009.

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

Balance sheet progress

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

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

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

Total customer deposits increased by £6.6 billion, or 3 per cent, to £230.7 billion compared to 31 December 2009. The growth was predominantly from instant access and tax free ISA accounts, rather than more expensive term deposits. This approach has helped support the net interest margin and has also had a beneficial impact on liquidity management. Retail continues to perform well in the savings market with a strong stable of savings brands which can be tailored to customer demands.

WHOLESALE

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

Key balance sheet and other items	**As at 30 June 2010 £bn**	As at 30 June 2009 £bn	***Change*** since 31 Dec 2009 %	As at 31 Dec 2009 £bn
Loans and receivables:				
Loans and advances to customers	**186.0**	216.4	***(3)***	191.8
Loans and advances to banks	**13.3**	21.6	***(30)***	18.9
Debt securities	**28.1**	33.0	***(11)***	31.7
Available-for-sale financial assets	**33.5**	40.8	***(9)***	36.9
	260.9	311.8	***(7)***	279.3

Customer deposits[1]	**159.2**	180.9	***4***	153.4
Risk-weighted assets	**280.7**	287.9	***(2)***	286.0

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

WHOLESALE (continued)

Key highlights

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

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

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

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

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

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

· **Share of results of joint ventures and associates amounted to a loss of £60 million,**an improvement of £425 million compared to the first half of 2009 as the operating performance of the entities improved.

· **Assets decreased by 7 per cent from 31 December 2009** reflecting continuing de-risking of the balance sheet by either selling down or reducing holdings in debt securities and available-for-sale positions, and deleveraging by customers in Wholesale's strategic segments.

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

· **Continued progress in deepening customer relationships.** Cross-selling has increased by 8 per centand continues to reflect increased product competencies and opportunities through a single sales force on the combined customer base.

WHOLESALE (continued)

Business overview

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

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

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

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

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

Strategic vision

Wholesale's strategic goal is to be recognised as the UK's leading, through-the-cycle, relationship-focused wholesale bank. The mission is to deepen and retain recurring, multi-product customer relationships building on deep insight into customer needs to provide a broad range of banking, risk management and capital market products.

Progress against strategic initiatives

Supporting customers through the cycle

Wholesale's through the cycle commitment to businesses is evidenced by key initiatives such as the SME Business Charter which was awarded the prize for innovation in SME finance by Business Money facts. In the first half of the year, approximately 60,000 new Commercial accounts have been opened towards the objective to help 100,000 people per year start in business and over 100 regional customer events have been held across the country towards the 200 per year commitment. Wholesale's focus on deepening customer relationships and continued commitment to businesses has again been recognised by Finance Directors of commercial and corporate companies who voted Lloyds TSB as Bank of the Year in the CBI/Real FD awards for the sixth year running in May.

In the first half of this year continued investment in Wholesale Markets capabilities has helped customers to diversify their funding sources and manage their interest rate and currency risks. This successful investment provides the foundations for deeper customer relationships and is earning external recognition which includes Lloyds Banking Group being named 'The most improved European Debt Capital Markets and Syndicate team' by Euroweek in May.

WHOLESALE (continued)

For customers that continue to be adversely impacted by the economic conditions, Wholesale has invested further in its established Business Support Units. These are dedicated to individual business units and so offer customer and sector expertise. These units have completed full reviews of their books and are setting customer level strategies aimed at supporting effective turnaround. This support is enabling Wholesale to deepen relationships with key and long standing customers and further demonstrates its through the cycle approach.

Integrating the business

The Wholesale integration aims to create a single Wholesale Bank by 2011 as it combines the strengths of Lloyds TSB's Wholesale Banking division and HBOS's Bank of Scotland Corporate division. In the Corporate and Commercial businesses, Wholesale continues to build on the strengths of both heritages and has created a single relationship management and product delivery structure that serves both heritage customer bases and allows it to offer a much improved product set. In the Asset Finance business the successful integration of Lex and Autolease brands has created one of the world's leading car leasing firms.

The focus for 2010 remains on the planning and execution of additional product migrations and strengthening risk systems. Significant milestones continue to be achieved across all business units enabling the delivery of the benefits to customers as well as the synergy targets committed. Wholesale remains on track to deliver its synergy targets for 2011.

Prioritising businesses

In 2009, Wholesale systematically reviewed its assets, portfolios and businesses to identify those that would add most value to its relationship-focused strategic vision. In the first half of 2010, Wholesale has ensured that investment in product and service capability has been directed towards these growth areas and explored divestment opportunities for the remaining assets.

Investment and change in the growth areas continues to be embedded with new talent joining the Group and new processes introduced to our client facing businesses. Cross-selling from deepening relationships has increased by 8 per cent reflecting these enhanced product capabilities.

A number of asset disposals have been completed so far in 2010 in progress towards the planned reduction of Wholesale's total assets, which includes part of the Group's commitment under the state aid restructuring plan. Wholesale continues to operate under an agreed oversight and governance framework with the intention always to maximise long-term shareholder value from any asset sale.

Financial performance

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

Loss before tax and fair value unwind improved by £6,804 million to £721 million, driven by a significant decrease in impairment losses reflecting the stabilising economic climate, and further supporting previous guidance that corporate impairments peaked in first half of 2009.

WHOLESALE (continued)

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

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

Operating expenses decreased by £69 million, or 4 per cent, to £1,882 million primarily from a further reduction in the level of operating lease depreciation in Asset Finance and a continued focus on cost management including savings attributable to the integration programme. This was partially offset by additional costs in the Business Support Unit and continued investment in customer facing resource and systems.

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

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

Consistent with the Group's base case economic assumptions, impairment losses in 2010 are expected to be significantly lower than in 2009. However, the volume of underlying impairment losses from traditional trading and manufacturing businesses is expected to continue to increase during 2010 as the full impact of economic conditions filters into business insolvencies and asset values which is a typical lag effect as the economy passes through and exits recession. While the effects of this are expected to be significantly less than the benefit of lower absolute impairments from the HBOS Corporate Real Estate and HBOS (UK and US) Corporate portfolios, in the second half of 2010 is expected to see a modest reduction in impairment compared to the first half of 2010, with further reductions in 2011.

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

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

Loans and advances to customers decreased by £5.8 billion, or 3 per cent, to £186.0 billion. In Corporate Markets, balances decreased by £4.0 billion, or 2 per cent, as customers continued to deleverage their balance sheets. In Asset Finance, the decrease of £1.5 billion, or 13 per cent, reflected lower customer demand in the current economic and market conditions. Loans and advances to banks decreased £5.6 billion, or 30 per cent, as the division refocused the balance sheet. Available-for-sale financial asset balances reduced by £3.4 billion, or 9 per cent, to £33.5 billion and debt securities decreased by £3.6 billion, or 11 per cent, to £28.1 billion as Corporate Markets reduced the balance sheet by either selling down or not replenishing total holdings after amortisations or maturities. Credit markets continued to rally in the second half of 2009 and until May 2010 which allowed sales in non-strategic sectors.

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

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

WHOLESALE(continued)

Corporate Markets

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

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

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

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

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

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

WHOLESALE (continued)

Treasury and Trading

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

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

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

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

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

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

WHOLESALE (continued)

Asset Finance

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

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

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

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

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

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

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WEALTH AND INTERNATIONAL

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

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

WEALTH AND INTERNATIONAL (continued)

Key highlights

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

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

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

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

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

· **Impairment losses amounted to £2,228 million,** compared to £1,469 million in the first half of 2009, reflecting the deterioration in the economic environment in Ireland. Further reductions are expected in the Wealth and International impairment charge in the second half of 2010, although economic conditions continue to be monitored closely, particularly in Ireland.

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

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

· **Against its strategic objectives,** Wealth has demonstrated continuing traction in client acquisition through the UK franchise with an annualised 19 per cent increase in customer numbers. In International, resources have been deployed to manage arrears and the balance sheet reduction strategy resulted in underlying local currency advances decreasing by £0.8 billion since December 2009.

WEALTH AND INTERNATIONAL (continued)

Progress against strategic initiatives

Deep and enduring customer relationships

In Wealth, the focus has been on driving additional income growth from the Group's affluent and high net worth client base through more effective use of the opportunities afforded by the Retail and Wholesale franchises to cross sell Wealth products to these customers. In the first half of 2010, customer segmentation across the Wealth businesses has been implemented and businesses transferred as appropriate to align to this segmentation, the customer referrals model has been formalised, and a new UK investment proposition launched. Continuing traction has been demonstrated through an annualised 12 per cent increase in Wealth relationship customers, including a 19 per cent increase in UK Wealth, and a 7 per cent increase in Wealth's customer deposits.

Maximising value in the short to medium term

In International, the focus remains on managing the impaired asset portfolio and continued strengthening of the control environment. Redeployment of resource from front line activity and the wider Group to manage arrears and collections is now complete and business support units are fully operational. The business aims to de-risk and reduce the balance sheet where possible, with net repayments in the International portfolio contributing £0.8 billion to the reduction in underlying local currency customer advances.

Integration

Wealth and International is making excellent progress with the integration of its businesses with an annual synergies run-rate as at 30 June 2010 of £172 million. The transfer of £50 billion of funds under management from Insight to Scottish Widows Investment Partnership was successfully completed in the first half of 2010 along with the sale of Employee Equity Solutions and Bank of Scotland Portfolio Management Service. The Spanish, Channel Islands and Wholesale Europe integration programmes are progressing well and Wealth and International is on track to deliver targeted cost savings by 2011.

The previously announced closure of both the Halifax retail business in the Republic of Ireland and the Bank of Scotland (Ireland) intermediary business is progressing well with the closure of all 44 Halifax retail branches in Ireland completed by the end of June 2010 and union agreement reached regarding the terms of the redundancy scheme.

WEALTH AND INTERNATIONAL (continued)

Financial performance by business unit

Wealth

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

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

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

Total income increased by £12 million, or 2 per cent, to £700 million. Net interest income decreased by £37 million, or 19 per cent, to £161 million reflecting continued margin compression driven by low base rates and a competitive deposit market. Other income increased by £49 million, or 10 per cent, to £539 million driven by increasing global stock markets and gains on sale of Employee Equity Solutions and Bank of Scotland Portfolio Management Service,

partly offset by lower asset management fee income following the sale of the external fund management business of Insight Investments in November 2009.

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

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

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

WEALTH AND INTERNATIONAL (continued)

Funds under management

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

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

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

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

are included within closing funds under management.

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

WEALTH AND INTERNATIONAL (continued)

International

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

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

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

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

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

WEALTH AND INTERNATIONAL (continued)

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

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

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

Balance sheet progress

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

Customer deposits decreased by 5 per cent to £5.5 billion with a strong performance in Bank of Scotland Germany, which has now raised over €2 billion of deposits since its launch in January 2009, offset by a fall in customer deposits in Ireland following the closure of the division's Irish retail business.

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INSURANCE

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	***Change since 30 June 2009 %***	Half-year to 31 Dec 2009 £m
Net interest income	**(136)**	(158)	***14***	(129)
Other income	**1,320**	1,479	***(11)***	1,465
Total income	**1,184**	1,321	***(10)***	1,336
Insurance claims	**(261)**	(294)	***11***	(343)
Total income, net of insurance claims	**923**	1,027	***(10)***	993
Operating expenses	**(423)**	(496)	***15***	(478)
Share of results of joint ventures and associates	**(10)**	(8)	***(25)***	(14)
Profit before tax and fair value unwind	**490**	523	***(6)***	501
Fair value unwind	**(21)**	(126)	***83***	77
Profit before tax	**469**	397	***18***	578
Profit before tax and fair value unwind - before impact of PPI new business closure	**560**	523	***7***	501
Other income - impact of PPI new business closure	**(70)**	-		-
Profit before tax and fair value unwind	**490**	523	***(6)***	501
Profit before tax and fair value unwind by business unit				
Life, Pensions and Investments:				
Before impact of PPI new business closure	**343**	328	***5***	289
PPI new business closure	**(70)**	-		-
UK business	**273**	328	***(17)***	289
European business	**19**	16	***19***	59
General Insurance	**195**	186	***5***	181
Other[1]	**3**	(7)		(28)
Profit before tax and fair value unwind	**490**	523	***(6)***	501
EEV new business margin[2]	**3.4%**	2.4%		2.6%
Life, Pensions and Investments sales (PVNBP)	**6,331**	7,361	***(14)***	6,158

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

[2] Further detail of the EEV results is shown on pages 128 to 131.

INSURANCE (continued)

Key highlights

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

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

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

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

· **Good progress continues to be made on integration,** including the launch of a single bancassurance proposition in June 2010.

· **Life, Pensions and Investments sales decreased by 14 per cent to £6,331 million (PVNBP)** primarily due to the withdrawal of certain HBOS legacy products with lower returns in the second half of 2009. Sales of OEIC and higher margin protection products increased by 9 per cent and 6 per cent respectively.

· **Life, Pensions and Investments EEV new business margin increased to 3.4 per cent** compared to 2.4 per cent for the first half of 2009. The improved margin reflects the strategic choices made in respect of product and channel propositions as the legacy businesses are integrated in order to focus on value. The margin improvement experienced during the first half of 2010 includes a particularly strong contribution from Retirement Income which is expected to be less significant in the second half of 2010.

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

· **Capital management initiatives resulted in £2 billion mitigation of the potential impact of Basel III.** Measures to facilitate further mitigation are planned during the second half of 2010, although these are anticipated to be of a lower impact.

INSURANCE (continued)

Overview of strategy

The Insurance division's strategic vision is to be recognised as the leading insurance business by its customers, staff and the Group's shareholders. The division has four strategic objectives to achieve its vision:

- complete the integration of its businesses;
- continue to strengthen its leading brands and grow sales profitably in its targeted markets;
- enhance the capital management and operational efficiency of existing and future business; and
- utilise the Group's strengths in distribution and asset management.

Progress against strategic initiatives

Integrating the businesses

The integrations of the legacy Life, Pensions and Investments businesses and the legacy General Insurance businesses have progressed well with an annualised run-rate synergy saving of £149 million being achieved at 30 June 2010.

In the Life, Pensions and Investments UK business good progress has been made in integrating the legacy distribution functions in both the Intermediary and Bancassurance channels. The Intermediary sales forces of Scottish Widows and Clerical Medical were combined in July 2009 and a new product set introduced. Sales through this channel have increased in the first half of 2010 compared to the second half of 2009 by 26 per cent. A single Bancassurance proposition was launched in June 2010.

In the General Insurance business an integrated supply chain model has been implemented which includes the introduction of personal claims consultants across all brands in July 2010.

Sustainable profitable growth

The Life, Pensions and Investments UK business continues to make excellent progress in improving the profitability of the combined product set. Certain low returning products sold through the HBOS heritage channels have been discontinued and sales across the wider franchise have been directed to products that both improve the customer proposition and enhance shareholder returns. The first half of 2010 has seen a strong increase in new business profits, new business margins and internal rates of return.

In General Insurance, the combined ratio fell from 81 per cent to 77 per cent. Home insurance sales delivered a resilient underwriting performance in the first half of 2010. Despite adverse weather claims at the beginning of the year, the performance of the home book remained strong.

Capital management and operational efficiency

Managing the use of the Group's capital remains a key objective of the business. Significant work has been undertaken to optimise the Insurance division's contribution to Group capital and during the first half of 2010 this resulted in £2 billion mitigation of the potential impact of Basel III. The insurance business remains well capitalised as assessed via the Insurance Groups Directive (IGD) regulatory measure of surplus capital.

The Insurance division continues to focus on cost reduction. Operating costs decreased by 15 per cent in the first half of 2010. Operational efficiencies have been achieved without compromising the quality of customer service with customer satisfaction scores remaining robust across the businesses.

INSURANCE (continued)

Leveraging distribution and asset management

An integrated Life, Pensions and Investments UK Bancassurance proposition was launched in June 2010. The proposition draws on the product design and customer service expertise from the two heritages in order to establish a consistent base from which to further leverage the scale of the Group's Bancassurance operation.

Life, Pensions and Investments

UK business

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	***Change since 30 June 2009 %***	Half-year to 31 Dec 2009 £m
Net interest income	**(116)**	(146)	***21***	(127)
Other income	**645**	772	***(16)***	702
Total income	**529**	626	***(15)***	575
Operating expenses	**(256)**	(298)	***14***	(286)
Profit before tax and fair value unwind	**273**	328	***(17)***	289
Profit before tax and fair value unwind - before impact of PPI new business closure	**343**	328	***5***	289
Other income - impact of PPI new business closure	**(70)**	-		-
Profit before tax and fair value unwind	**273**	328	***(17)***	289
Profit before tax analysis				
New business profit - insurance business[1]	**166**	175	***(5)***	153
- investment business[1]	**(34)**	(96)	***65***	(100)
Total new business profit	**132**	79	***67***	53
Existing business profit[2]	**234**	192	***22***	239
Experience and assumption changes	**(23)**	57		(3)
Profit before tax and fair value unwind - before impact of PPI new business closure	**343**	328	***5***	289
Other income - PPI new business closure	**(70)**	-		-
Profit before tax and fair value unwind	**273**	328	***(17)***	289
EEV new business margin (UK)	**3.5%**	2.5%		2.7%

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

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

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

INSURANCE (continued)

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

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

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

A repositioning of the combined product set to focus on sustainable profitability, and higher Retirement income returns, resulted in the EEV new business margin increasing to 3.5 per cent in the first half of 2010 compared to 2.5 per cent in the first half of 2009. This improvement in margins featured a particularly strong contribution from conventional annuities. This is not expected to be as pronounced in the second half of 2010 and the EEV new business margin excluding this impact was 3.3 per cent.

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

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

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

European business

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

INSURANCE (continued)

New business

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

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

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

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

INSURANCE (continued)

Funds under management

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

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

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

INSURANCE (continued)

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

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

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

Payment protection insurance underwriting income decreased by £87 million, or 23 per cent, to £292 million reflecting the impact on new business volumes of the market wide move to monthly premiums and the decline of

historic single premium business. Changes in commissions reflect lower volumes and the impact of cancellations.

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

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

GROUP OPERATIONS

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

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

Financial performance

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

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

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

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

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

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

CENTRAL ITEMS

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

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

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

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

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ADDITIONAL INFORMATION ON A COMBINED BUSINESSES BASIS

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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 results for the half-year ended 30 June 2009 assume HBOS had been owned throughout the full period;

- the gain on acquisition of HBOS (in the half-year ended 30 June 2009) and amortisation of purchased intangible assets have been excluded; and

- the unwind of acquisition-related fair value adjustments is shown as one line in the combined businesses income statement.

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

- integration costs;

- insurance and policyholder interests volatility;

- the Government Asset Protection Scheme fee paid in December 2009;

- goodwill impairment; and

- the curtailment gain in respect of the Group's defined benefit pension schemes.

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

		Removal of:				
Half-year to 30 June 2010	**Lloyds Banking Group** statutory	**Curtailment gain and acquisition related items**[1]	**Volatility**	**Insurance gross up**	**Fair value unwind**	**Combined businesses**
	£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 the curtailment gain (£1,019 million), integration costs (£804 million) and the amortisation of purchased intangibles (£323 million).

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

Half-year to 30 June 2009	Lloyds Banking Group statutory £m	Pre-acquisition results of HBOS £m	Removal of: Acquisition related items[(1)] £m	Volatility £m	Insurance gross up £m	Fair value unwind £m	Combined businesses £m
Net interest income	4,499	243	-	(2)	206	1,496	6,442
Other income	8,201	(1,123)	-	593	(1,527)	(353)	5,791
Total income	12,700	(880)	-	591	(1,321)	1,143	12,233
Insurance claims	(2,902)	1,349	-	-	1,292	(33)	(294)
Total income, net of insurance claims	9,798	469	-	591	(29)	1,110	11,939
Operating expenses	(6,464)	(293)	962	-	22	55	(5,718)
Trading surplus (deficit)	3,334	176	962	591	(7)	1,165	6,221
Impairment	(8,053)	(456)	-	-	-	(4,890)	(13,399)
Share of results of joint ventures and associates	(504)	-	-	-	-	(3)	(507)
Gain on acquisition	11,173	-	(11,173)	-	-	-	-
Fair value unwind		-	-	-	-	3,728	3,728
Profit (loss) before tax	5,950	(280)	(10,211)	591	(7)	-	(3,957)

(1) Comprises integration costs (£358 million), amortisation of purchased intangibles (£364 million) and goodwill impairment (£240 million).

Half-year to 31 December 2009	Lloyds Banking Group statutory £m	Removal of: GAPS fee and acquisition related items[(1)] £m	Volatility £m	Insurance gross up £m	Fair value unwind £m	Combined businesses £m

Net interest income	4,527	-	13	1,074	670	6,284
Other income	28,070	-	(1,072)	(20,132)	(782)	6,084
Total income	32,597	-	(1,059)	(19,058)	(112)	12,368
Insurance claims	(19,117)	-	-	19,026	(252)	(343)
Total income, net of insurance claims	13,480	-	(1,059)	(32)	(364)	12,025
Operating expenses	(9,520)	3,627	-	39	(37)	(5,891)
Trading surplus (deficit)	3,960	3,627	(1,059)	7	(401)	6,134
Impairment	(8,620)	-	-	-	(1,969)	(10,589)
Share of results of joint ventures and associates	(248)	-	(10)	-	(2)	(260)
Fair value unwind		-	-	-	2,372	2,372
Profit (loss) before tax	(4,908)	3,627	(1,069)	7	-	(2,343)

[1] Comprises the Government Asset Protection Scheme fee (£2,500 million), integration costs (£738 million) and amortisation of purchased intangibles (£389 million).

2. Banking net interest margin

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Banking net interest margin			
Banking net interest income	**6,646**	5,724	6,229
Average interest-earning assets, excluding reverse repos	**644,701**	671,944	676,510
Banking net interest margin	**2.08%**	1.72%	1.83%

In order to enhance comparability in the Group's banking net interest margin, certain items have been excluded in determining net interest income and average interest-earning assets. These include interest earned on shareholders' funds held in the Group's insurance businesses, amounts attributable to policyholders and amounts relating to trading activities primarily in the Wholesale division.

A reconciliation of banking net interest income to Group net interest income follows:

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Banking net interest income - combined businesses	**6,646**	5,724	6,229
Insurance division	**(136)**	(158)	(129)
Other net interest income (including trading activity)	**401**	876	184
Group net interest income - combined businesses	**6,911**	6,442	6,284
Fair value unwind	**(183)**	(1,496)	(670)
Insurance gross up	**321**	(206)	(1,074)
Volatility	**(11)**	2	(13)
Pre-acquisition results of HBOS	**-**	(243)	-
Group net interest income - statutory	**7,038**	4,499	4,527

Other net interest income decreased by £475 million to £401 million due to the disposal of certain debt securities and available-for-sale financial assets, primarily in Corporate Markets, and lower income in Treasury and Trading as

markets stabilised.

3. Integration costs and benefits

The Group expects to deliver annualised cost savings from synergies and other operating efficiencies of £2 billion by the end of 2011.

The sustainable run-rate synergies achieved as at 30 June 2010 now total £1,084 million excluding a number of one-off savings. The table below analyses the run-rate synergies as at 30 June 2010 by division and the 2011 target run-rate of £2 billion. The divisions are on target to achieve their 2011 run-rate synergies, with their share of IT and Property benefits being necessarily back ended.

	2010			2011
	Synergy run-rate as at 30 June 2010	**Allocation of Group Operations run-rate to divisions**	**Run-rate by market facing division**	Target run-rate by market facing division
	£m	£m	**£m**	£m
Retail	**249**	**174**	**423**	867
Wholesale	**218**	**81**	**299**	532
Wealth and International	**167**	**5**	**172**	242
Insurance	**127**	**22**	**149**	239
Group Operations	**288**	**(288)**	**-**	-
Central items	**35**	**6**	**41**	120
Total	**1,084**	**-**	**1,084**	2,000

The Integration programme commenced IT systems design and build in 2009 with the build for the integrated technical infrastructure completing in the first half of 2010. A comprehensive programme of testing is now underway ahead of commercial and retail systems integration and data migration in 2011.

Product, process and system harmonisation is underway with the first half of 2010 seeing deployment of the Lloyds TSB model of day time cash deliveries to Halifax and Bank of Scotland branches, implementation of an improved online mortgage application process for mortgage brokers, delivery of a single scalable secure Internet Banking platform, launch of an integrated product proposition for our market leading Bancassurance business, delivery of the Lloyds TSB staff on-line procurement system to Halifax and Bank of Scotland staff and migration of all Halifax and Bank of Scotland HR staff data onto the Lloyds TSB platform.

Savings to date have been driven largely from role reductions, some 16,000, resulting from deployment of the new Group organisation design adopting the Lloyds TSB approach. The overwhelming majority of role reductions have been achieved through re-deployment, natural turnover and voluntary redundancy. Only a small proportion left via compulsory redundancy. In addition the Group has exited 35 properties during the first half of 2010, bringing the total to 118 since the start of the integration programme

Procurement benefits in 2010 have also been significant at £99 million. The Group has reviewed and consolidated key supplier contracts with over 90 per cent of spend now being through its top 1,000 suppliers.

3. Integration costs and benefits (continued)

Total cost reductions from synergies of £650 million have been achieved in the first half-year against the integration baseline, in line with target. They are analysed by division in the table below and are included in the Group's combined businesses results for the half-year to 30 June 2010. These benefits relate primarily to reductions in staff numbers, procurement and IT savings.

By division	Synergies realised half-year to 30 June 2010 £m	Allocation of Group Operations actual to divisions £m	Synergies by market facing division £m
Retail	**142**	**132**	**274**
Wholesale	**122**	**68**	**190**
Wealth and International	**80**	**3**	**83**
Insurance	**64**	**12**	**76**
Group Operations	**223**	**(223)**	**-**
Central items	**19**	**8**	**27**
Total	**650**	**-**	**650**
By expenditure type			
People			**362**
Procurement[1]			**99**
IT			**99**
Property			**24**
Other			**66**
Total			**650**

[1] Procurement benefits totalling £127 million were achieved, split £99 million against the ongoing cost base and £28 million against integration costs.

One-off integration costs of £804 million (£1,900 million to date) were incurred in the first half of 2010 which have been excluded from the combined businesses results. The integration costs relate to severance, IT and business costs of implementation. The Group's policy is to use natural turnover and to redeploy staff wherever possible to retain their expertise and knowledge within the Group.

4. Impairment charge

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Retail:			
Secured	**53**	591	198
Unsecured	**1,282**	1,597	1,835
Total Retail	**1,335**	2,188	2,033
Wholesale	**2,937**	8,343	5,688
Wealth and International	**2,227**	1,461	2,597
Total impairment losses on loans and advances to customers	**6,499**	11,992	10,318
Loans and advances to banks	**(6)**	14	(17)
Debt securities classified as loans and receivables	**15**	853	139
Available-for-sale financial assets	**49**	495	151
Other credit risk provisions	**(3)**	45	(2)
Total impairment charge	**6,554**	13,399	10,589
Charge for impairment losses on loans and advances to customers as % of average lending (annualised):			
Retail:			
Secured	**0.03%**	0.34%	0.11%
Unsecured	**8.27%**	9.06%	10.86%
Total Retail	**0.72%**	1.15%	1.07%
Wholesale	**2.85%**	6.87%	4.92%
Wealth and International	**6.56%**	4.55%	7.40%
Total	**2.01%**	3.47%	3.02%

5. Volatility

The Group's statutory profit before tax is affected by two items that impact the underlying financial performance of the Group, namely 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 tax charge.

During the six months to 30 June 2010, the Group's statutory profit before tax included negative insurance and policyholder interests' volatility of £199 million compared to negative volatility of £591 million in the six months to 30 June 2009. The adverse volatility in the first half of 2010 arose primarily as a result of the performance of equity markets partially offset by favourable experience in fixed interest and property investments.

Volatility comprises the following:

	Half-year to 30 June 2010 £m	Half-year to 30 June 2009 £m	Half-year to 31 Dec 2009 £m
Insurance volatility	**(162)**	(484)	721
Policyholder interests volatility	**(91)**	(107)	405
Total volatility[1]	**(253)**	(591)	1,126
Group hedging arrangements	**54**	-	(57)
Total	**(199)**	(591)	1,069

[1] Above result 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)	**2010**	2009	2008
	%	%	%
Gilt yields (gross)	**4.45**	3.74	4.55
Equity returns (gross)	**7.45**	6.74	7.55
Dividend yield	**3.00**	3.00	3.00
Property return (gross)	**7.45**	6.74	7.55
Corporate bonds in unit linked and with-profit funds (gross)	**5.05**	4.34	5.15
Fixed interest investments backing annuity liabilities (gross)	**5.30**	5.72	5.52

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 (continued)

Overall, the negative insurance volatility during the six months ended 30 June 2010 in the Insurance division was £162 million, primarily reflecting the deterioration in equity investments relative to the expected return. Increased equity volatility has also caused a negative volatility impact on the realistic value of the options and guarantees. These factors were partially offset by an improved performance from fixed interest securities and property investments. During the first half of 2010, equities have declined by 9 per cent, offset by a reduction in gilt yields and an increase in property values of 12 per cent. This contrasts with 2009 where an increased level of volatility for gilts and fixed income investments and lower property values, along with a fall in global equity markets, were the main drivers of the £484 million negative insurance volatility.

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 2009. These expired on 15 January 2010. The charge booked in the first half of 2010 was £7 million. New protection against significant market falls, using option contracts, has been acquired by the Group, financed by selling some upside potential from equity market movements. There was no initial cost associated with these hedging arrangements. On a mark to market valuation basis a gain of £44 million was recognised in relation to these contracts in the first half of 2010. The option contracts expire on 21 January 2011. Other Group level hedging contracts have also shown a net positive movement on a mark to market basis which has resulted in a gain of £17 million.

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 2010, the statutory profit before tax in both the Insurance and Wealth and International divisions included a charge to other income relating to a policyholder interests volatility totalling £91 million (2009: policyholder interests volatility impact of £107 million). This charge included the impact of deferred tax asset impairments due to falling equity markets and changes in expected policyholder tax provisions. Policyholder tax liabilities increased slightly during the first half of 2010 and led to a small tax charge during the period.

6. Number of employees (full-time equivalent)

	As at 30 June 2010	As at 31 Dec 2009
Retail	**54,353**	53,338
Wholesale	**18,365**	18,496
Wealth and International	**9,585**	10,503
Insurance	**10,593**	10,621
Group Operations	**19,180**	19,047
Central items	**2,522**	2,391
	114,598	114,396
Agency staff (full-time equivalent)	**(8,135)**	(7,252)
Total number of employees (full-time equivalent)	**106,463**	107,144

RISK MANAGEMENT

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