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

FORM 6-K

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

26 February 2010

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

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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 26 February 2010

re: 2009 Results

2009 Results
News Release

Lloyds Banking Group plc

Lloyds Banking Group plc

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (formerly Lloyds TSB Group plc) (the 'Company') together with its subsidiaries (the 'Group') for the year ended 31 December 2009.

Statutory basis
Statutory results are set out on pages 97 to 136. However, the acquisition of HBOS plc on 16 January 2009 has had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2009 results (which include the results of HBOS from 16 January 2009) with 2008 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, the following adjustments have been made:
  - the 2008 results include the results of HBOS as if it had been acquired on 1 January 2008;
  - the 2009 results assume HBOS had been owned throughout the year;
  - the unwind of acquisition-related fair value adjustments are shown as one line in the 2009 combined businesses
    income statement and have not been back-dated to 2008; and
  - the gain on acquisition of HBOS and amortisation of purchased intangible assets have been excluded.
- In order to better present the underlying business performance the following items, not related to the acquisition, have also been excluded:
  - the results of BankWest and St. Andrews which were sold in December 2008 and the related loss on disposal;
  - insurance and policyholder interests volatility;
  - integration costs;
  - goodwill impairment; and
  - Government Asset Protection Scheme (GAPS) fee.

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

Unless otherwise stated income statement commentaries throughout this document compare the year ended 31 December 2009 to the year ended 31 December 2008, and the balance sheet analysis compares the Group balance sheet as at 31 December 2009 to the
combined businesses
balance sheet as at 31 December 2008.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or the Group 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 results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of 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 mitigate exposures from the acquisition and integration of HBOS, risks concerning borrower credit quality, market related trends and developments, changing demographic trends, changes in customer preferences, changes to regulation, the policies and actions of Governmental and regulatory authorities in the UK or jurisdictions outside the UK, including other European countries and the US, exposure to regulatory scrutiny, legal proceedings or complaints, competition and other factors. Please refer to the rights issue prospectus issued by Lloyds Banking Group plc on 3 November 2009 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

2009 was a year of significant achievement in shaping the Group. We have established positive trends in margin, cost and impairments and are well positioned. We are building strong earnings momentum and expect our performance to improve significantly in 2010 and beyond.'

J Eric Daniels
Group Chief Executive

·
Statutory profit before tax of £
1,042
million
(2008: £760 million) includes an £11,173 million acquisition-related negative goodwill credit.
·
Combined businesses loss of £6,300 million
for the year
(2008: £6,713 million loss).
·
Resilient core businesses performance
despite year-on-year margin pressure and weak economy. £35
billion
of gross new mortgage lending, approximately
100,000

new commercial accounts.
·
Total income, net of insurance claims, increased
by
12
per cent to £23,964 million
due to the absence of £3.4 billion of mark to market losses on the Group's treasury asset portfolio and gains of £1.5 billion on capital transactions, which were partly offset by significant year-on-year margin pressures.
·
Banking net interest margin improved
to
1.83
per cent in the second half of the year, compared to 1.72
per cent in the first half.
·
Integration ahead of schedule and cost synergies target increased to £2 billion run-rate by the end of 2011
. Total cost synergies of £
534
million have been realised during the year. Annualised run-rate savings totalled £
766

million at the year end.
·
Total impairments significantly higher at £
23,988
million for 2009. Second half impairments were
21

per cent lower than in the first half of 2009.
We expect to see a similar pace of half yearly improvement throughout 2010, with further substantial reductions in 2011 and beyond.

·

Robust capital position and strengthened funding profile.
Core tier one capital at
8.1
per cent following the successful capital raising in December 2009. Wholesale funding maturing in more than one year increased from 44 per cent to
50
per cent.

·

Outlook: economy showing signs of stabilisation, with weak upturn expected in 2010.
Significant improvement in the performance of our continuing businesses expected in 2010.

·

Medium-term goals reflect economic outlook and significant opportunity to leverage relationship-led model across enlarged business base.
High single-digit income growth from our continuing businesses targeted within two years. Continued reduction in cost:income ratio. Further run-off of around £140 billion of assets to reduce the balance sheet in the medium term and allow for investment in core relationship businesses.

SUMMARY OF RESULTS

Results	**2009 £m**	2008 £m	
Statutory			
Total income, net of insurance claims	**23,278**	9,868	
Total operating expenses	**(15,984)**	(6,100)	
Trading surplus	**7,294**	3,768	
Impairment	**(16,673)**	(3,012)	
Gains on acquisition	**11,173**	-	
Profit before tax	**1,042**	760	
Profit attributable to equity shareholders	**2,827**	772	
Earnings per share	**7.5p**	6.7p	
			Change
Combined businesses basis (note 1, page 55)			***%***
Total income, net of insurance claims	**23,964**	21,355	***12***
Banking net interest margin	**1.77%**	2.01%	
Operating expenses	**(11,609)**	(12,236)	***5***
Trading surplus	**12,355**	9,119	***35***
Impairment	**(23,988)**	(14,880)	***(61)***
Loss before tax	**(6,300)**	(6,713)	***6***
Capital and balance sheet	**As at 31 Dec**	As at 31 Dec 2008	

	2009		
Statutory			
Loans and advances to customers	**£627.0bn**	£240.3bn	
Customer deposits	**£406.7bn**	£170.9bn	
Net assets per ordinary share	**68p**	155p	
Core tier 1 capital ratio	**8.1%**	5.6%	
Tier 1 capital ratio	**9.6%**	8.0%	
Total capital ratio	**12.4%**	11.2%	
Leverage ratio	**18 times**	27 times	
			Change
Combined businesses basis			*%*
Loans and advances to customers	**£627.0bn**	£677.2bn	*(7)*
Customer deposits	**£406.7bn**	£409.2bn	*(1)*
Risk-weighted assets	**£493.3bn**	£498.5bn	*(1)*

GROUP CHIEF EXECUTIVE'S STATEMENT

Summary

2009 was another challenging year for the financial services industry, both in the UK and around the world, reflecting a continuation of many of the issues that arose in 2008. During the year, the UK experienced its sharpest contraction in gross domestic product (GDP) for many decades, with a sharp fall in the value of commercial property alongside rising company failures and higher unemployment levels. Despite the tough market conditions, our core businesses have performed well.

Our significant achievements in 2009 will shape the future of the Lloyds Banking Group. We strengthened our franchise, attracting new customers and building deeper relationships. We have made excellent progress with the integration of HBOS, which we acquired in January 2009. The Group's capital is robust and our funding profile was strengthened considerably during the period.

The management team implemented a number of programmes that have resulted in positive trends in margins, costs and impairments. Given the momentum we have already developed in these areas, and with the stabilising economy, we believe the Group is well positioned to deliver a strong financial performance in the coming years.

We believe we have substantial additional growth opportunities from continuing to develop our business model and applying it across the broader franchise. As we realise the potential, it will enable us to further improve our growth trajectory in the coming years.

Although we are forecasting a slow, below trend, economic recovery, the Group is successfully addressing the near term challenges and is well positioned to deliver value for our customers and shareholders. As a result, the financial performance of the Group's continuing businesses is expected to improve significantly in 2010 and beyond.

Results overview

On a statutory basis, the Group delivered a profit before tax of £1.0 billion for 2009. This result includes an £11.2 billion negative goodwill gain associated with the purchase of HBOS, given we acquired the business at half book value in anticipation of the likely losses resulting from their troubled asset portfolios.

On a combined businesses basis, the Group reported a £6.3 billion loss for the year, compared to a £6.7 billion loss in 2008. Our total income rose 12 per cent, whilst costs fell
5 per cent. The higher income and lower costs drove a substantial uplift in the trading surplus, which increased by 35 per cent, and our cost:income ratio improved to 48.4 per cent.
As guided last August, there was a significant increase in impairments, which rose to £24.0 billion from £14.9 billion in 2008, principally due to the HBOS portfolios and their high level of exposure to commercial property.

Resilient core business performance

Total income, net of insurance claims, was up 12 per cent on prior year, helped by lower write-downs on treasury assets and the profits from debt swaps. These gains more than offset the year-on-year decline in margins, which suffered from the impact of very low base rates and increased funding costs as we lengthened our maturity profile.

The continued development of our customer franchises has enabled us to offset the impact of the weak economy. In Retail, we opened nearly 2 million current accounts and nearly 5 million new savings accounts, which are important drivers for future profitable growth. We delivered an equally good performance in the Wholesale Division. In our Commercial business, we opened 100,000 new accounts and achieved a 23 per cent share of start-up businesses, and in Corporate we saw a 49 per cent improvement in cross-sales income from Lloyds TSB customers. Wealth and International, our new division, made a very encouraging start in 2009 with a strong growth in the number of relationship clients and a 13 per cent growth in the number of UK private banking customers. In Insurance, despite the more difficult market conditions, we made good progress in key product areas such as OEICs and life assurance protection.

With over 30 million customers we understand the financial hardships that many households and businesses are experiencing as a result of the recent economic decline in the UK. We are committed to helping our customers in these challenging times, which is reflective of our relationship based approach. In Retail we maintained strong levels of mortgage lending, with £35 billion of gross new lending, and helped thousands of our customers to buy new homes. In Wholesale we have provided approximately £10 billion of committed gross lending to small and medium-sized enterprises and approximately £25 billion to Corporate customers. We are acutely aware of the importance of supporting households and businesses as we exit the recession, and we will remain just as focused on this in 2010 as we were in 2009.

Our asset margin improved during 2009, although the upturn came earlier than we had expected. We are pricing assets to appropriately reflect risk and our funding costs, and the net interest margin recovered somewhat in the second half. The key drivers influencing our margin in 2010 will be asset pricing, a possible increase in the base rate and the cost of wholesale funding. We expect to be able to achieve a margin of 2 per cent this year, and to be on an upward trajectory after that.

We envisage minimal medium-term impact on our margin from the cost of wholesale funding, as we reduce our absolute wholesale funding requirement. Additionally, whilst we anticipate that a high proportion of our existing Government and Central Bank funding will not have to be re-financed, we believe we can replace the residual portion at a cost that is similar to that which we are paying for these facilities at present.

Cost synergy target increased

Costs fell by 5 per cent in the year. We have made great strides in delivering the integration of Lloyds TSB and HBOS, one of the largest financial services mergers ever undertaken. We exited the year with a cost synergy run-rate of £766 million. The key programmes we have put in place are: rationalising our businesses to eliminate areas of duplication; leveraging our procurement skills and re-aligning our property requirements. Given we have now achieved half of our cost run-rate target, we have raised our guidance and are now targeting annual run-rate cost synergies of £2 billion by the end of 2011.

Impairments expected to reduce significantly in the coming years

Impairments in the year were £24.0 billion, which is reflective of the problem HBOS portfolios, in particular, their over concentration in commercial real estate. When we released our half-year Results, we said that total Group impairments would peak in that half, and the full-year numbers confirm that guidance.

The Lloyds TSB conservative approach to risk management has been implemented across the Group, and is making a difference. All new lending is within the Group's risk appetite and the existing portfolios are being managed to Group standards. Looking forward, we expect to see a similar pace of half-yearly improvement throughout 2010, with further substantial reductions in 2011, and beyond. We expect reductions in all three customer divisions, although we remain cautious on the Irish portfolios, given the uncertain economic outlook.

Robust capital position

Following our recent successful capital raise, the Group's year-end core tier one ratio was 8.1 per cent and it rose by a further 30 basis points in February 2010. This reflects a number of successful actions during the year which included the £4 billion ordinary share placing and compensatory open offer in June, and the £22.5 billion equity raising and liability management exercises announced in November.

Funding and liquidity strengthened

A number of steps were taken in the year, to extend the Group's wholesale funding maturity and to further improve our liquidity profile. The Group's loan to deposit ratio improved and over 50 per cent of the wholesale funding had a maturity of over one year (2008: 44 per cent). We had also established an £88 billion liquidity buffer at the end of 2009. In addition, the Group continued to widen its diverse range of funding sources and had already achieved a significant amount of its expected term funding issuance for 2010 by the end of January.

Delivering sustainable value through the cycle

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, conservative, risk management framework.

The Group aims to:

·
Deliver high single-digit income growth from our continuing businesses within the next two years.
·
Deliver annual reductions in our cost:income ratio of 2 per cent over the next few years.
·
Run off non-relationship assets to reduce the size of its balance sheet, providing the capacity to re-invest in growing our relationship businesses.

State aid
During 2009, the Group was required to work with HM Treasury to submit a restructuring plan to the European Commission in the context of a state aid review. During the last few months of 2009, the final terms of the restructuring plan were agreed by the European Commission College of Commissioners. The Board approved the restructuring plan and is confident that it will not have a materially negative impact on the Group.

Economic outlook
The economic performance last year was worse than most expected, with a 4.8 per cent decline in GDP. Looking forward, we remain cautious but realistic. Our view is that the risk of a severe further downturn in 2010 is lower than a few months ago and we continue to forecast growth in GDP of 1.8 per cent for 2010, with a similar trend in 2011. Against that backdrop, we expect property prices will be broadly flat in 2010 and we remain on the cautious side of the range of market expectations. We anticipate that company failures will peak this year, but do not expect them to reach the heights seen in the last recession due to much lower corporate debt servicing costs. We believe unemployment will also peak in 2010, but at a lower level than seen in the last recession.

Our financial outlook and guidance are based on a range of economic scenarios. Having stressed our portfolios, we are confident of our capital position and the expectation of improving financial performance, albeit the growth would be slower in coming through if there were a second economic downturn, or a weaker than expected economic recovery.

Business outlook
2009 was a year of substantial achievement, in which we shaped the Group to enable us to deliver the growth potential of the enlarged franchise. We achieved this whilst maintaining good momentum in the core business, and as a result the Group is now in a strong position.

We have established positive trends in margin, costs and impairments. The management actions we have already taken in these areas, combined with the underlying business momentum, point towards significantly improved financial performance in the coming years.

We also believe there are significant opportunities for additional growth, potentially amounting to hundreds of millions of pounds in revenues. Over the last five years Lloyds TSB has delivered accelerating growth by focusing on acquiring, deepening and broadening customer relationships. We can see significant opportunity from sustaining this trend in the legacy Lloyds TSB franchise, and extending the model across the enlarged Group. As we realise this potential, we will add to our growth trajectory.

Our people
The last twelve months have been very challenging for all of our staff, across the Group. The external environment has been difficult but our staff have continued to serve and support our customers superbly, while delivering one of the largest banking mergers in history. I, along with all the members of the Board, am very proud of their achievements this last year, and their performance underpins my confidence in our

ability to deliver in the coming years.

J Eric Daniels
Group Chief Executive

COMBINED BUSINESSES INFORMATION

The analysis and commentary that is set out on pages 8 to 68 is presented on a combined businesses basis. The basis of preparation of the combined businesses results is set out on pages 55 to 57.

COMBINED BUSINESSES CONSOLIDATED INCOME STATEMENT

	2009	2008
	£ million	£ million
Net interest income	12,726	14,903
Other income	**11,875**	6,933
Total income	**24,601**	21,836
Insurance claims	**(637)**	(481)
Total income, net of insurance claims	**23,964**	21,355
Operating expenses	**(11,609)**	(12,236)
Trading surplus	**12,355**	9,119
Impairment	**(23,988)**	(14,880)
Share of results of joint ventures and associates	**(767)**	(952)
Loss before tax and fair value unwind	**(12,400)**	(6,713)
Fair value unwind	**6,100**	-
Loss before tax - combined businesses	**(6,300)**	(6,713)

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

RECONCILIATION OF COMBINED BUSINESSES LOSS BEFORE TAX

TO STATUTORY PROFIT BEFORE TAX FOR THE YEAR

	2009	2008
	£ million	£ million
Loss before tax - combined businesses	**(6,300)**	(6,713)
Integration costs	**(1,096)**	-
Volatility (page 66 , note 7)	**478**	(2,349)
GAPS fee	**(2,500)**	-

Negative goodwill credit	**11,173**	-
Amortisation of purchased intangibles and goodwill impairment	**(993)**	(258)
Pre-acquisition results of HBOS plc	280	10,825
Insurance grossing adjustment	**-**	10
Results of BankWest and St. Andrews	**-**	90
Loss on disposal of businesses	**-**	(845)
Profit before tax - statutory	**1,042**	760

COMBINED BUSINESSES PROFIT (LOSS) ANALYSIS BY DIVISION

	2009 **£ million**	2008 £ million
Retail	**1,382**	2,542
Wholesale	**(4,703)**	(10,479)
Wealth and International	**(2,356)**	277
Insurance	**975**	1,540
Group Operations and Central items:		
Group Operations	**(149)**	(76)
Central items	**(1,449)**	(517)
	(1,598)	(593)
Loss before tax	**(6,300)**	(6,713)

COMBINED BUSINESSES RESULTS BY HALF-YEAR

	2009 First half-year £ million	**2009 Second half-year £ million**
Net interest income	**6,442**	**6,284**
Other income	**5,791**	**6,084**
Total income	**12,233**	**12,368**
Insurance claims	**(294)**	**(343)**
Total income, net of insurance claims	**11,939**	**12,025**
Operating expenses	**(5,718)**	**(5,891)**

Trading surplus	**6,221**	**6,134**
Impairment	**(13,399)**	**(10,589)**
Share of results of joint ventures and associates	**(507)**	**(260)**
Loss before tax and fair value unwind	**(7,685)**	**(4,715)**
Fair value unwind	**3,728**	**2,372**
Loss before tax - combined businesses	**(3,957)**	**(2,343)**

HALF-YEAR PROFIT (LOSS) ANALYSIS BY DIVISION

	2009 First half-year £ million	**2009 Second half-year £ million**
Retail	**360**	**1,022**
Wholesale	**(3,208)**	**(1,495)**
Wealth and International	**(342)**	**(2,014)**
Insurance	**397**	**578**
Group Operations and Central items		
Group Operations	**(55)**	**(94)**
Central items	**(1,109)**	**(340)**
	(1,164)	**(434)**
Loss before tax	**(3,957)**	**(2,343)**
Banking net interest margin	**1.72%**	**1.83%**
Impairment as a % of average advances	**3.47%**	**3.02%**

COMBINED BUSINESSES SUMMARISED CONSOLIDATED BALANCE SHEET

	As at 31 Dec 2009 £ million	200 As at 31 Dec 2008[(1)] £ million
Assets		
Cash and balances at central banks	**38,994**	7,510
Derivatives, trading and other financial assets at fair value through profit or loss	**199,939**	213,529
Loans and receivables:		
Loans and advances to customers	**626,969**	677,246
Loans and advances to banks	**35,361**	63,519
Debt securities	**32,652**	42,058
	694,982	782,823

Available-for-sale financial assets	**46,602**	76,141
Investment properties	**4,757**	5,676
Value of in-force business	**6,685**	5,738
Goodwill and other intangible assets	**6,103**	7,330
Tangible fixed assets	**9,224**	8,651
Other assets	**19,969**	19,320
Total assets	**1,027,255**	1,126,718
Liabilities		
Deposits from banks	**82,452**	155,074
Customer deposits	**406,741**	409,162
Derivatives, trading and other financial liabilities at fair value through profit or loss	**68,756**	90,765
Debt securities in issue	**233,502**	249,665
Insurance liabilities	**77,261**	71,768
Liabilities arising from non-participating investment contracts	**46,348**	43,313
Other liabilities	**32,581**	26,380
Retirement benefit obligations	**780**	2,755
Subordinated liabilities	**34,727**	42,183
Total liabilities	**983,148**	1,091,065
Net assets	**44,107**	35,653

(1)
Adjusted to reflect the completion of the assessment of the fair value of the identifiable net assets of the HBOS Group acquired.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE AND OUTLOOK

During 2009 the Group delivered a resilient trading performance against the backdrop of a marked slowdown in the UK economic environment and continued challenges in financial markets. In addition, the Group has made excellent progress in the integration of HBOS plc following its acquisition on 16 January 2009. Statutory profit before tax in 2009 was £
1,042
million, compared to £760 million in 2008, largely reflecting the impact of a £
11,173
million credit to the income statement from the gain arising on the HBOS acquisition (negative goodwill) which offset the significant increase in impairments during the year. Profit attributable to equity shareholders was £2,827 million and earnings per share totalled
7.5
p.

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

On a combined businesses basis, the Group reported a loss before tax in 2009 of £
6,300

million, compared to a loss before tax of £6,713 million in 2008. Whilst the Group delivered resilient revenues, lower costs and a strong trading surplus performance, up
35
per cent to £
12,355
million, profits were adversely impacted by significantly higher impairment losses which increased by £
9,108
million to £
23,988
million.

A resilient revenue performance

The Group delivered a resilient revenue performance in 2009 given significant year-on-year margin pressures. Total income, net of insurance claims, was
12
per cent higher at £
23,964
million, supported by a good performance in Wholesale largely as a result of the absence of last year's £
3.4 b
illion impact of market dislocation, more favourable interest and currency rate environments, good transaction volumes in capital markets and strong flows of client driven derivative transactions at improved spreads. Income also includes £
1.5 b
illion gains on a number of liability management transactions.

In Retail, lower levels of income from payment protection insurance, reflecting the impact of the decision in January 2009 to move to a monthly premium product and lower loan volumes, the impact of falling interest rates on deposit margins and higher overall funding costs from wholesale money markets have led to retail banking revenues being
13
per cent lower than in 2008. Whilst lending markets have remained generally subdued throughout the industry, the Group has maintained a
24
per cent share of gross mortgage lending. Unsecured lending balances were slightly lower, reflecting lower customer demand and tightened credit criteria. During the year, we have continued to build our current account and savings customer franchises in what remains a competitive market for customer deposits.

New business sales in our life assurance and pensions businesses were
26
per cent lower than last year, reflecting the extremely challenging market conditions which led to a general market-wide slowdown in the sale of life, pensions and investments products. Sales of OEICs and life assurance protection products remain good.

In Wealth and International, income was 6 per cent lower reflecting the impact of deposit margin pressure and falls in global stock markets in the first half of 2009.

Total assets decreased by
9
per cent to £
1,027
billion, with a

7
per cent decrease in loans and advances to customers reflecting the impact of reductions in non-relationship lending portfolios. Customer deposits decreased by
1
per cent to £
407
billion, as growth in Retail was offset by the planned reduction in higher interest paying term deposits elsewhere.

Year-on-year Group net interest income decreased by £
2,177
million, or
15
per cent, to £
12,726
million. The net interest margin from our banking businesses was
24
basis points lower at
1.77
per cent, as higher asset pricing was more than offset by the impact of lower deposit margins, reflecting the impact of falling base rates, and higher funding costs, which included the impact of the Group extending its wholesale funding maturity profile. During the second half of 2009 however, the impact of asset pricing more than offset the impact of lower base rates and higher funding costs and the margin increased to
1.83
per cent, compared to 1.72 per cent in the first half of the year. The net interest margin is expected to increase in 2010 to approximately 2 per cent, with further improvements expected in the margin in subsequent years reflecting the impact of continued improvements in asset pricing, moderate base rate rises and greater stability in wholesale funding markets. 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 £
4,786
million, or
74
per cent, to £
11,238
million, largely reflecting the absence of last year's investment write-downs, and the gains on liability management transactions.

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 2009, operating expenses decreased by
5
per cent to £
11,609
million, as integration related savings have started to be captured and lower operating lease depreciation offset inflation linked growth and investment in our continuing businesses. Over the last twelve months, the total number of roles has reduced by over 11,500 as the Group has started to achieve its targeted cost synergy savings.

In addition, we have already made significant progress in capturing savings from areas such as procurement and, overall, £534 million of cost synergy savings have already been realised, which represent annual run-rate savings of over £760 million. As a result of the integration programme being ahead of schedule, the Group has increased its commitment to deliver cost synergies and other operating efficiencies to achieve run-rate savings of £2.0 billion per annum by the end of 2011. One-off integration costs over this period are expected to total approximately 1.55 times the revised targeted cost synergies. The Group also expects to continue to improve its core cost:income ratio by in excess of 2 percentage points per annum during this period, with further improvements thereafter as we seek to optimise the ratio over the medium term.

Impairment levels higher but expected to have peaked

During 2009 we have experienced a significant rise in impairment levels in the Group's lending portfolios. This largely represents falls in the value of commercial real estate and the impact of the economic deterioration during the year, including the effects of rising unemployment and reduced corporate cash flows, although the effects of some of these issues started to reduce in the second half of the year. This increase in impairment levels was however partially offset by the accelerated unwind of credit related fair value adjustments taken at the time of the HBOS acquisition totalling over £7 billion. The impairment charge in the second half of 2009 was 21 per cent lower than in the first half of the year, reflecting the peak of overall impairments in the first half.

In Retail, impairment losses increased by £
532
million, or
14
per cent, to £
4,227
million, particularly reflecting increases in UK unemployment during 2009 on the unsecured charge, which was partly offset by a lower secured impairment charge as house prices stabilised. Compared to 2009, we expect to see a reduction in the Retail impairment charge in 2010 with further improvements thereafter as the UK economic environment improves and house prices continue to stabilise.

The Wholesale charge for impairment losses increased significantly by £
5,289
million to £
15,683
million, reflecting, in particular, the year-on-year decline in commercial property valuations and reduced levels of corporate cash flows. In particular, the real estate related lending exposures in the legacy HBOS portfolios were more sensitive to the downturn in the economic environment.

We continue to believe that the overall Wholesale impairment charge peaked in the first half of 2009 and we have seen a significant reduction in the Wholesale impairment charge in the second half of 2009. Further significant reductions are expected in 2010 and beyond, assuming current economic expectations. We have spent a significant amount of time analysing and addressing the issues in the legacy HBOS portfolios, with the greatest attention paid to the over concentration in real estate related

lending and those portfolios that fall outside the Lloyds TSB risk appetite. As a result of our portfolio review, which applied prudent assumptions to real estate asset expectations, and with the deterioration in the economy translating into lower commercial property valuations, we took prudent and material impairment charges especially in the first half of the year.

In our Wealth and International business the impairment charge rose by £3,347 million to £
4,078
million, reflecting significant provisions against our Irish (£
1,793
million) and Australian (£
508
million) commercial real estate portfolios. We continue to have ongoing concerns with regard to the outlook for the Irish economy although we expect 2009 to have been the peak for the International impairment charge.

Overall, impairment losses increased by £
9,108
million to £
23,988
million. Impairment losses on loans and advances to customers expressed as a percentage of average lending was
3.25
per cent, compared to 1.81 per cent in 2008. Impaired loans and advances increased by
£27,529 million
to £
58,833
million and now represent
8.9
per cent of total loans and advances to customers, up from 4.4 per cent at 31 December 2008.

At the Group level, we are confident that the overall impairment charge peaked during 2009. Although we would normally expect that impairments would peak one to two years after the low point of a recession, given the significant Wholesale charge during the year, predominantly driven by the HBOS property and property related portfolios and HBOS (UK and US) corporate portfolios, we believe that the charge in 2010 will be significantly lower than the 2009 charge. The impairment charge in the second half of 2009 was 21 per cent lower than that in the first half of the year. Given our current economic outlook, we expect to see a similar pace of half-yearly improvement throughout 2010, with further substantial reductions in 2011 and beyond.

Acquisition related balance sheet adjustments

Fair value adjustments reflected in the calculation of the net assets acquired totalled £
1,241
million
(note 7, page
114
). Negative adjustments in respect of tangible net assets totalled £2,107 million principally reflecting the write-down of HBOS's retail and corporate lending portfolios offset by gains on the valuation of HBOS's own debt. Intangible assets totalling £4,650 million have been recognised, largely reflecting the value of HBOS's relationship with its retail customer base and the value of its brands. Other acquisition related balance sheet adjustments include the elimination of HBOS's available-for-sale and cash flow hedging reserves which totalled £6,439 million.

As a result of these adjustments, the Group expects some £3.3 billion, net, to unwind positively through the Group's income statement over the medium to long term. During 2009, the Group's income statement reflected gains of £
6.1

billion. In 2010, we currently expect a further benefit of some £2.5 billion. Thereafter, over the medium term, smaller benefits are expected to accrue.

Gain on acquisition of HBOS

Following the acquisition of HBOS in January 2009, the Group has recognised a gain of £
11,173
million in respect of negative goodwill. This arises because the consideration paid to acquire HBOS, in January 2009, was considerably less than the fair value of the net assets acquired reflecting the unique circumstances surrounding the transaction (note
7
, page
113
).

Volatility

A large proportion of the investments held by the Group's insurance businesses is invested in assets which are expected to be held on a long-term basis and which are inherently subject to short-term investment market fluctuations. Whilst it is expected that these investments will provide enhanced returns over the longer term, the short-term impact of investment market volatility can be significant. In 2009, higher equity market returns compared to our long-term assumption have contributed to positive insurance and policyholder volatility totalling £
478
million.

Taxation

The Group's 2009 income statement includes a tax credit of £
1,911
million. This primarily reflects a tax credit relating to the Group's reported loss and a policyholder interests related tax charge offsetting in full the credit for policyholder interests included in the Group's profit before tax (note 8, page
115
).

The UK government has published draft legislation which, when enacted, will introduce a bank payroll tax of 50 per cent applicable to discretionary bonuses and other amounts over £25,000 awarded to bank employees in the period 9 December 2009 to 5 April 2010. The legislation has yet to be finalised and there remain significant uncertainties over aspects of its detailed application and the Group continues to assess its ultimate liability in respect of all of its schemes. However, in accordance with the requirements of IAS 19 'Employee Benefits' the Group has provided in full for the estimated cost of the bank payroll tax; the amount is not significant.

Robust capital ratios

At the end of December 2009, the Group's capital ratios, following the Group's successful capital raising in December 2009, increased significantly with a total capital ratio on a Basel II basis of 12.4 per cent, a tier 1 ratio of 9.6 per cent and a core tier 1 ratio of
8.1
per cent (note
26,
page
129

). These capital ratios were further enhanced by the issuance on 18 February 2010 of £
1.5
billion equity, as part of the capital raising programme announced in November 2009, which further increased the core tier 1 capital ratio by
30
basis points to an adjusted
8.4
per cent. During 2009, risk-weighted assets decreased by 1 per cent to £493.3 billion, as the reduction in balance sheet assets was partly offset by the procyclical impact of the weaker economic environment. Over the next few years we expect to see further reductions in 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.

Following the introduction of a prescribed stress test by the Financial Services Authority in January 2009, the Group undertook a significant exercise which stress tested the Group's capital base to withstand the impact of a significant economic deterioration in the UK, resulting in a requirement to increase the Group's capital position. As a result of this increased capital requirement, in March 2009, in what was clearly a difficult external market, the Group announced its intention to participate in the Government Asset Protection Scheme (GAPS). This would have enabled the Group to substantially strengthen its capital position to meet the newly increased regulatory capital requirements, and reduce the risk profile of the enlarged Group's balance sheet.

In June 2009, the Group successfully completed a £4 billion Placing and Compensatory Open Offer with the proceeds being used to redeem the £4 billion of preference shares held by HM Treasury. The redemption of the HM Treasury preference shares removed the annual cost of the preference share dividends of £480 million and improves the Group's cash flow generation.

On 3 November 2009 the Group announced further proposals to meet its current and long-term capital requirements by way of a £13.5 billion rights issue and the generation of at least £7.5 billion (subsequently increased to £9 billion) core tier 1 and/or contingent core tier 1 capital through a number of debt exchange offers. In doing so the Group announced that it would not participate in GAPS. This reflected the more positive economic environment than the conditions prevailing in March 2009 when the Group announced its intention to participate in GAPS. As a result of the highly successful conclusion of this transaction, reflecting the strong support received from shareholders and investors, the Group is now in a robust capital position. We note the various recently issued regulatory capital consultation papers and impact studies and will continue to work with our regulators to ensure this robust capital position is maintained as the ongoing capital requirements for banks continue to change.

In addition, during 2009, the Group completed a number of balance sheet liability management transactions that have generated significant core tier 1 capital by redeeming certain securities at a discount to their balance sheet carrying value. A substantial number of note holders have accepted the various offers made and, as a result, the Group has generated a pre-tax profit from these transactions of approximately £
1.5
billion.

Rightsizing the balance sheet
In the Group's Interim Results announcement in August 2009, we set out our strategy to reduce assets associated with non-relationship lending and investments, including business which is outside our current risk appetite, by some £200 billion by the end of 2014. It is our intention to manage these assets for value

and, given the current economic climate, our primary focus will be on running these assets down over time. During 2009, the Group's total balance sheet assets reduced by £
100
 billion of which £6
0
 billion related to the portfolios of assets in run-off (£
15
 billion customer assets; £
30
 billion treasury assets; £15 billion impairment). We expect to achieve a further reduction in such assets of approximately £140 billion over the next few years. The impact of running down these portfolios is not expected to have a significant impact on the Group's financial performance over the medium term.

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 have been incorporated into the Group's overall business plans, which include actions to increase retail and corporate deposits over time. Together these actions will reduce the proportion of the Group's funding that is derived from wholesale markets and eliminate our use of government and central bank sponsored funding facilities, whilst providing capacity for core relationship business growth.

A strong liquidity and funding position

The recent extended turbulence in global capital markets has been a severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment, and individual institutions have faced varying, but significant, degrees of stress. The Group has a strong liquidity position which is supported by our robust and stable customer deposit base. The Group continues to benefit from a diversity of funding sources, which have recently been enhanced by the establishment of a US Medium Term Note programme, and a second regulated covered bond programme. The Group's wholesale funding base has proved to be resilient, supporting the Group's balance sheet with a reduced dependence on short-term funding. During the year the Group has also significantly increased its holdings of liquid assets from £104.5 billion to £150.8 billion. In addition, the Group has improved the quality of its liquid asset portfolio by increasing its cash at central banks and Government debt securities, and reducing its holdings of eligible bank debt securities.

During 2009, the Group has extended the maturity profile of wholesale funding, such that, at 31 December 2009, 50 per cent of wholesale funding had a maturity date greater than one year (31 December 2008: 44 per cent). 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 which we consider to be an appropriate and sustainable long-term proportion. However, in this regard we note recent regulatory consultation papers relating to liquidity requirements which, if put into practice, could require banks to manage their liquidity risk differently.

Increases in customer deposits and the reduction in assets set out above, mean that we expect to see a slow but steady improvement in the Group's loan to deposit ratio. The Group does not set a target for this ratio, which we believe does not reflect either the quality of lending or the term of deposits held, but would expect to see it return to legacy Lloyds TSB levels of approximately 140 per cent over the next few years. During 2009 the ratio, excluding repos, improved to 169 per cent.

Relative to the size of its balance sheet, the Group does not have significant senior term funding issuance requirements. Over the next 3 years the Group expects its public capital and senior funding issuance to total in the range of £20 billion to £25 billion per annum. We have made good progress on our 2010 term funding issuance plans following the issuance in December 2009 of US$2 billion tier 1 securities and in January 2010 the Group issued US$5 billion senior unsecured debt, and executed a £
2.5
billion Residential Mortgage-Backed Securities (RMBS) transaction which included the first public US$ tranche of RMBS by a UK issuer since 2008.

At 31 December 2009, the Group's overall funding support from Governmental and Central Bank sources totalled £157 billion, with a significant proportion (predominantly Special Liquidity Scheme (SLS) and Credit Guarantee Scheme (CGS) funding) maturing over the course of the next two years. The Group's balance sheet reduction plans will avoid the necessity to refinance much of this funding. The current cost to the Group of participating in these schemes is currently approximately 50 basis points over LIBOR for the SLS and approximately 130 basis points over LIBOR for CGS. Overall, based on expected spreads and balance sheet mix, we believe the increased cost of wholesale funding over the next few years is expected to 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.

Summary

The deterioration in the UK economic environment, particularly in the first half of 2009, created an extremely challenging operating background against which to integrate two large banking organisations. As expected, against this backdrop, the significant increase in corporate impairments has led the Group to report a loss before the credit for negative goodwill arising on the acquisition of HBOS. The Group has a strong risk management culture and is well-placed to manage through the near-term challenges and benefit from what we expect to be a slow but steady UK economic recovery during 2010 and beyond.

Our revenue performance has been resilient and we are already beginning to deliver improving interest margins, which we expect to improve further over the next few years. We have an excellent track record in cost management, with a unique opportunity to capture significant acquisition related synergies over the next few years. We believe the Group's overall impairment charge has now peaked, with a significant reduction expected in 2010. We have a robust capital and funding position. Overall, therefore, based on our current economic outlook, we expect to deliver a significantly improving combined businesses financial performance in 2010, with strong medium-term prospects thereafter.

Tim Tookey
Group Finance Director

COMBINED BUSINESSES SEGMENTAL ANALYSIS

2009	**Retail**	**Wholesale**	**Wealth and Int'l**	**Insurance**	**Group Operations and Central items**	**Group**
	£m	£m	**£m**	**£m**	**£m**	**£m**
Net interest income	7,970	4,710	1,217	**(287)**	(884)	12,726

Other income	1,804	4,199	1,128	2,944	1,800	11,875
Total income	9,774	8,909	2,345	2,657	**916**	24,601
Insurance claims	-	-	-	**(637)**	-	**(637)**
Total income, net of insurance claims	9,774	8,909	2,345	2,020	**916**	23,964
Operating expenses	**(4,566)**	**(4,106)**	**(1,544)**	**(974)**	**(419)**	**(11,609)**
Trading surplus	5,208	4,803	801	1,046	**497**	12,355
Impairment	**(4,227)**	**(15,683)**	**(4,078)**	-	-	**(23,988)**
Share of results of joint ventures and associates	**(6)**	**(720)**	**(21)**	**(22)**	**2**	**(767)**
Profit (loss) before tax and fair value unwind	**975**	**(11,600)**	**(3,298)**	1,024	**499**	**(12,400)**
Fair value unwind(1)	**407**	6,897	942	**(49)**	**(2,097)**	6,100
Profit (loss) before tax	1,382	**(4,703)**	**(2,356)**	**975**	**(1,598)**	**(6,300)**
Banking net interest margin (2)	1.97%	1.52%	**1.71%**			1.77%
Cost:income ratio	46.7%	46.1%	65.8%	48.2%		48.4%
Impairment as a % of average advances(3)	1.11%	5.92%	**6.04%**			**3.25%**

Key balance sheet and other items 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**

(1) Fair value unwind represents the impact on the consolidated and divisional income statements of the acquisition related balance sheet adjustments. These adjustments principally reflect the application of market based credit spreads to HBOS's lending portfolios and own debt. The net fair value unwind in 2009 is mainly attributable to a reduction in the impairment charge of £6,859 million, as losses reflected in the opening balance sheet valuation of the lending portfolios have been incurred, offset by a charge to net interest income of £2,166 million as the value of HBOS's own debt accretes to par.

(2) The calculation basis for banking net interest margins is set out in note 2 on page 58.

(3) 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)

2008	Retail £m	Wholesale £m	Wealth and Int'l £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	8,454	5,752	1,314	(345)	(272)	14,903
Other income	2,739	(302)	1,191	3,493	(188)	6,933
Total income	11,193	5,450	2,505	3,148	(460)	21,836
Insurance claims	-	-	-	(481)	-	(481)
Total income, net of insurance claims	11,193	5,450	2,505	2,667	(460)	21,355
Operating expenses	(4,963)	(4,591)	(1,476)	(1,129)	(77)	(12,236)
Trading surplus	6,230	859	1,029	1,538	(537)	9,119
Impairment	(3,695)	(10,394)	(731)	-	(60)	(14,880)
Share of results of joint ventures and associates	7	(944)	(21)	2	4	(952)
Profit (loss) before tax	2,542	(10,479)	277	1,540	(593)	(6,713)
Banking net interest margin	2.15%	1.85%	2.06%			2.01%
Cost:income ratio	44.3%	84.2%	58.9%	42.3%		57.3%
Impairment as a % of average advances	0.97%	3.32%	1.05%			1.81%

Key balance sheet and other items 31 December 2008	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers	377.1	234.6	64.6	-	0.9	677.2
Customer deposits	216.3	157.9	34.1	-	0.9	409.2
Risk-weighted assets	118.9	311.0	61.2	0.7	6.7	498.5

DIVISIONAL PERFORMANCE

RETAIL

	2009 £m	2008 £m	Change %
Net interest income	**7,970**	8,454	*(6)*
Other income	**1,804**	2,739	*(34)*
Total income	**9,774**	11,193	*(13)*
Operating expenses	**(4,566)**	(4,963)	*8*
Trading surplus	**5,208**	6,230	*(16)*
Impairment	**(4,227)**	(3,695)	*(14)*
Share of results of joint ventures and associates	**(6)**	7	
Profit before tax and fair value unwind	**975**	2,542	*(62)*
Fair value unwind	**407**	-	
Profit before tax	**1,382**	2,542	*(46)*
Banking net interest margin	**1.97%**	2.15%	
Cost:income ratio	**46.7%**	44.3%	
Impairment losses as a % of average advances	**1.11%**	0.97%	
Number of employees (full-time equivalent)	**53,384**	59,939	

	As at 31 Dec 2009 £bn	As at 31 Dec 2008 £bn	Change %
Loans and advances to customers	**371.1**	377.1	*(2)*
Customer deposits			
Savings	**185.6**	182.7	*2*
Current accounts	**38.5**	33.6	*15*
	224.1	216.3	*4*
Risk-weighted assets	**128.6**	118.9	*8*

RETAIL
(continued)

Key highlights

- Profit before tax and fair value unwind amounted to £975 million, a decrease of £1,567 million on 2008 primarily due to lower income and higher levels of impairment, partly offset by a decrease in operating expenses.

·
Net interest income has decreased by 6 per cent to £7,970 million.
The banking net interest margin decline of 18 basis points reflected higher wholesale funding costs and lower deposit margins in the low base rate environment, partly offset by higher asset pricing, the benefits from which improved the margin in the second half of the year.

·
Other operating income has decreased by 34 per cent to £1,804 million,
primarily due to lower payment protection income and non-recurring one-off income in 2008.

·
Strong cost management delivering benefits.
O
perating expenses decreased by 8 per cent primarily due to tight cost control, cost savings achieved from the integration programme and lower Financial Services Compensation Scheme charges.

·
Impairment losses have increased by 14 per cent to £4,227 million,
reflecting the effect of increased UK unemployment during 2009 on the unsecured charge, partly offset by a lower secured impairment charge as house prices stabilised.

·
Continued good new lending quality,
reflecting continued strong credit criteria with the average loan-to-value ratio on new mortgage lending at 59 per cent, compared to 63 per cent for 2008.

·
Good progress was made in integrating the Lloyds TSB and HBOS retail businesses.
New management structures have been implemented across Retail and continuing good progress has been made in streamlining, simplifying and integrating back office processes. Retail's integration synergies of £124 million for 2009 were ahead of expectations.

·
Loans and advances to customers have decreased by 2 per cent,
reflecting the impact of customers reducing their personal indebtedness and not taking on new financial commitments.

·
Customer deposits have increased by 4 per cent,
despite the high level of term deposits maturing in the period. The growth in deposits accelerated in the second half of 2009, increasing by £5.6 billion, or 3 per cent.

·
Good momentum in the business into the second half,
with a positive trend in income growth in 2009, tight cost control, good progress being made on integration, and impairment losses peaking.

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

Retail has approximately 22 million current account customers and provides social banking to over 4 million people through basic banking or social banking accounts. It is also the largest provider of personal loans in the UK, as well as being the UK's leading credit card issuer. Retail provides one in four residential mortgages making it the leading UK mortgage lender as well as being a major provider of home finance for the first time buyer. Retail is the largest savings provider in the UK, with over 21 million savers. It is also a major general insurance and bancassurance distributor, selling a wide range of long term savings, investment and general insurance products.

RETAIL
(continued)

Strategic vision
Retail's strategic goal is to be recognised by its customers as the UK's best and most recommended bank. It will achieve this by building deep and enduring customer relationships which deliver real value to customers. Supporting this strategy are a strong stable of brands which provide unparalleled customer reach and choice; deep customer insight based on the strength of the customer franchise; and highly efficient and effective low cost processes as a result of business scale. Real customer understanding and lower cost processes will enable further investment in the products and services that Retail customers want. Last, but not least, investment in effective tools and processes will allow Retail colleagues to focus on meeting customer needs. This strategy will be delivered within clearly defined and prudent risk parameters.

Progress against strategic initiatives
Integration
The immediate priority of the business has been to plan and successfully deliver the integration of the retail activities of Lloyds TSB and HBOS. Good progress has been made in 2009. Organisational structures have been aligned to establish a single management team across Retail. The management of the sales force is now consistent across both heritages. The different mortgage operating models have been integrated and simplified and the number of mortgage operational sites reduced. In Direct Channels the multi-skilling of advisors has commenced enabling advisors to answer both banking and savings calls. Retail has sold Halifax Estate Agencies as part of ongoing initiatives to focus on its core business. Retail is on track to deliver its annualised cost savings target of £378 million for 2011.

Deep and enduring customer relationships
A key goal of Retail is to build deeper and enduring relationships with customers and, in particular to help its customers build a more secure financial future. Retail has continued to maintain momentum in its key businesses and is making good progress in implementing its relationship strategy. In 2009 the number of customers with their main current account with Retail (those paying in more than £1,000 a month) increased by 4 per cent. In addition, almost 5 million new savings accounts and almost 2 million new current accounts were opened.

New accounts opened in Lloyds TSB in 2009 were broadly in line with 2008 despite the difficult market, with lower mortgage sales being offset by a particularly strong performance in savings. Sales in the Halifax and Bank of Scotland networks have shown an improving trend in the second half of the year. The pilot of the Lloyds TSB leads system in Halifax and Bank of Scotland in the second half resulted in a significant sales uplift. This will be rolled out to the whole network in 2010.

To support Retail customers, who are encountering financial difficulties, a cross-channel support programme has been launched. Lloyds TSB branches and telephone units have at least one trained Financial Health Specialist providing customers with budgeting and money management advice. In the Halifax and Bank of Scotland businesses, customers have a dedicated telephone support line with trained specialists able to guide them through financial difficulties. Support is also available for all customers online and through a specially developed brochure. For those customers requiring more intensive help, assistance is provided through dedicated support units where tailored repayment programmes can be agreed. Customers are actively supported and referred to free money advice agencies where they have multiple credit facilities that require restructuring.

RETAIL
(continued)

Creating products and services that customers value

The introduction of the new Reward current account by Halifax and Bank of Scotland was well received by customers. Halifax and Bank of Scotland have taken the lead in the market and moved the majority of their customers to a new and simpler overdraft charging structure. In addition, they have also launched the new Visa contactless debit card. Another innovative product launched in 2009 was the Lloyds TSB 'Lend a Hand' mortgage. This allows first time buyers access to interest rates usually available to those with a 25 per cent deposit by linking the product to funds in a savings account provided by family or friends. As well as providing a return for savers, this product supports growth in the important first time buyers market. In addition, Lloyds TSB launched its new monthly saver with an interest rate of 5 per cent for 12 months.

In Lloyds TSB the role of the bank manager is being re-defined, backed by a marketing campaign, with the focus on traditional customer service and advice, building relationships with the customer within a modern banking environment.
Retail also continues to lead the market in the provision of mobile banking services which assist customers in monitoring their bank accounts by providing access through their mobile phone.

Improving productivity and continually improving customer service

Productivity in both branch networks has increased during 2009. The Lloyds TSB network has continued to realise the benefits of the investments made in 2008 in developing branch staff as well as increasing the number of branches opening on a Saturday. Consequently in 2009, sales of personal core banking products by personal bankers increased by 20 per cent. Productivity in the Halifax branch network has grown steadily, with the introduction of the Lloyds TSB leads system to support the more effective cross-selling of products. The sharing of best practice with the Halifax financial advisors has seen their number of monthly sales of protection products increase by over 200 per cent during 2009.

Following a period of strong growth in the use of internet banking, a significant percentage of Retail's customer enquiries and transactions now occur online. There are 6.8 million active users of Retail internet services logging on 52 million times a month. There has been an 18 per cent growth in online account transfers and online payments to third parties. In addition, customers are making increasing use of electronic statements, with more than 6 million accounts now having statements delivered electronically rather than in paper format.

Financial performance

Profit before tax and fair value unwind decreased by £1,567 million to £975 million. This decrease was driven by higher impairment losses and lower income, partly offset by a reduction in operating expenses.

Retail's banking net interest margin decreased by 18 basis points to 1.97 per cent reflecting higher wholesale funding costs and reduced margins on savings products due to the low base rate environment, partly offset by higher asset pricing which led to a stronger margin in the second half of 2009.

RETAIL
(continued)

COMBINED BUSINESSES RESULTS BY HALF-YEAR

Total income has decreased by £1,419 million, or 13 per cent, to £9,774 million, reflecting the impact on margins referred to above, lower payment protection income and non-recurring one-off income in 2008. Total income is analysed as follows:

	2009	2008	***Change***
	£m	£m	*%*
Mortgages and Savings	**3,667**	5,009	***(27)***
Consumer Banking	**6,107**	6,184	***(1)***
Total income	**9,774**	11,193	***(13)***

Total income in Mortgages and Savings has decreased by 27 per cent. The reduction in Mortgage income reflected increased wholesale money market funding costs, which was partly offset by higher asset pricing. Lower income in Savings was the result of margin pressures arising from lower base rates and the competitive environment, the impact of which was partly offset by higher customer deposits.

Consumer Banking (current accounts and unsecured lending) income was broadly unchanged in 2009 compared to 2008. As previously reported, on 1 January 2009 Retail introduced a monthly premium payment protection product and ceased selling single premium products. This new product offers customers the benefit of monthly payments whilst retaining the product's valuable benefits and has been well received by both customers and the market. Income from this product is recognised over the life of the loan rather than all being recognised in the first year. This reduction in income, together with the effect of lower loan volumes, was broadly offset by a strong performance across the rest of Consumer Banking, including benefits from asset re-pricing.

Lending to customers in 2009 has fallen by 2 per cent reflecting the impact of customers reducing their personal indebtedness and not taking on new financial commitments in the current difficult economic environment.
Risk-weighted assets increased by 8 per cent reflecting the impact of the weak economic environment on credit quality.

Retail continued to make good progress in building its mortgage business in a contracting market by focusing on the prime mortgage market, particularly through its network rather than intermediaries, whilst maintaining a prudent approach to risk. Gross new mortgage lending totalled £35 billion during 2009, representing a market share of 24 per cent. Retail has maintained its strong commitment to the housing market and first time buyers, with more than 60 per cent of new lending in 2009 being for house purchase rather than for re-mortgage. In March 2009, the Group committed to increase its planned gross lending to homebuyers by £3 billion in the following 12 months - Retail is on track to deliver this commitment. The average loan-to-value ratio at the end of 2009 was 54.8 per cent compared with 54.9 per cent at the end of 2008, whilst the average loan-to-value ratio on new residential lending in 2009 was 59.3 per cent compared with 63.1 per cent in 2008. Retail continued to be an industry leader in its support for shared equity and share ownership schemes. Specialist lending balances (self certified and sub-prime) decreased slowly following the decision, at the start of the year, to withdraw from this market. New buy to let lending remained broadly flat at 13 per cent of total mortgage lending; however, redemptions in this book were low. Buy to let mortgage balances have increased by £2.9 billion in the year. Retail continued to carefully assess the risks of such lending and as a result the average loan-to-value on new lending in the buy to let portfolio has fallen to 65.6 per cent at the end of 2009 compared to 73.1 per cent at the end of 2008.

RETAIL

COMBINED BUSINESSES RESULTS BY HALF-YEAR

(continued)

Customer deposits have increased by 4 per cent over the last twelve months despite the high level of term deposits maturing during the period, as a result of Halifax and Bank of Scotland deposit gathering activities in the first half of 2008. Deposit growth accelerated through 2009 reversing the trend of declining deposit balances in the second half of 2008. Deposit growth in the second half of 2009 was particularly strong at £5.6 billion, or 3 per cent. Current account balances have increased by 15 per cent in the year resulting from growth in the number of current accounts and the low interest rate environment.

Operating expenses decreased by £397 million, or 8 per cent, to £4,566 million driven primarily by strong cost control, cost savings resulting from integrating the two businesses and the benefit of a lower Financial Services Compensation Scheme levy. The reduction in operating expenses resulting from integrating the Lloyds TSB and HBOS retail businesses was delivered through streamlining management structures, consolidating the number of mortgage operational sites, integrating and simplifying the mortgage operating model, procurement savings from the rationalisation of suppliers and property savings through the consolidation of sites.

Impairment losses on loans and advances have increased by £532 million, or 14 per cent, to £4,227 million in 2009. Impairment losses as a percentage of average advances were 1.11 per cent in 2009 compared to 0.97 per cent in 2008. Higher unemployment and the weak economy drove a significant increase in unsecured impairments which was partly offset by a lower secured impairment charge as house prices stabilised. Unsecured impairment losses are sensitive to economic conditions, particularly unemployment levels; consequently the 2009 impairment charge increased by £1,038 million to £3,438 million. The stabilisation of the housing market, in combination with lower interest rates and prudent risk management, has resulted in the secured impairment charge decreasing in 2009 by £506 million to £789 million. Total impaired loans, as a percentage of closing advances to customers, decreased during the second half of the year to 2.9 per cent compared to 3.0 per cent at 30 June 2009 and 2.6 per cent at 31 December 2008
.

Arrears levels in the secured portfolios were higher than 2008 but improved in the second half of 2009, and remained below the industry average. The percentage of mortgage cases more than three months in arrears increased to 2.3 per cent at 31 December 2009 compared to 1.8 per cent as at 31 December 2008. The stock of repossessed properties reduced by 32 per cent to 2,720 properties compared to 4,011 properties at the end of 2008 and, as a proportion of total accounts, remains lower than the industry average. Currently, average proceeds from the sale of repossessed properties are in excess of average valuations assumed in Retail's provisioning models.

RETAIL
(continued)

The level of impaired loans in the unsecured lending portfolio, as at 31 December 2009, totalled £3.8 billion, or 11.9 per cent of closing advances (after writing off £2.1 billion of loans provided against in earlier years). This compared with £5.4 billion, or 14.7 per cent of closing advances at 31 December 2008; however, on an equivalent basis (adjusting for the £2.1 billion write-off in 2009) impaired loans at 31 December 2008 totalled £3.3 billion, or 8.9 per cent of advances. The underlying increase in impaired loans which occurred in the first half of 2009 reflected the weak economy, particularly rising unemployment. During 2009 a number of actions have been taken which improved delinquency rates on new business.

Compared to 2009, Retail expects to see a reduction in its impairment charge in 2010 as house prices continue to stabilise, with further improvements thereafter as the UK economic environment improves.

WHOLESALE

	2009 £m	2008 £m	***Change %***
Net interest income	**4,710**	5,752	***(18)***
Other income	**4,199**	(302)	
Total income	**8,909**	5,450	*63*
Operating expenses	**(4,106)**	(4,591)	*11*
Trading surplus	**4,803**	859	
Impairment	**(15,683)**	(10,394)	***(51)***
Share of results of joint ventures and associates	**(720)**	(944)	*24*
Loss before tax and fair value unwind	**(11,600)**	(10,479)	***(11)***
Fair value unwind	**6,897**	-	
Loss before tax	**(4,703)**	(10,479)	***55***
Corporate Markets	**(11,736)**	(10,509)	***(12)***
Treasury and Trading	**595**	273	
Asset Finance	**(459)**	(243)	***(89)***
Loss before tax and fair value unwind	**(11,600)**	(10,479)	***(11)***
Banking net interest margin	**1.52%**	1.85%	
Cost:income ratio	**46.1%**	84.2%	
Impairment losses as a % of average advances	**5.92%**	3.32%	
Number of employees (full-time equivalent)	**18,699**	21,472	

Key balance sheet and other items	**As at 31 Dec 2009 £bn**	As at 31 Dec 2008 £bn	***Change %***
Loans and receivables:			
Loans and advances to customers	**191.8**	234.6	***(18)***
Loans and advances to banks	**18.9**	37.0	***(49)***
Debt securities	**31.7**	40.5	***(22)***
Available-for-sale financial assets	**36.9**	74.1	***(50)***
Customer deposits(1)	**153.4**	157.9	***(3)***
Risk-weighted assets	**286.0**	311.0	***(8)***

(1)
Of which repos represent £35.5 billion (2008: £18.1 billion)

WHOLESALE
(continued)

Key highlights

- **Loss before tax and fair value unwind amounted to £11,600 million,** an increase of £1,121 million on 2008 due to higher levels of impairment, partly offset by an increase in other operating income and a decrease in operating expenses.
- **Total income has increased by 63 per cent to £8,909 million,** particularly reflecting the lower impact of market dislocation and continued strength in sales and trading activity.
- **Net interest income has decreased by 18 per cent to £4,710 million.** The banking net interest margin decline of 33 basis points since prior year reflected higher wholesale funding costs partly offset by higher asset pricing. Margins fell in the first half of the year but have stabilised in the second half of 2009.
- **Strong cost management delivering benefits,** excluding the cost of settlement of certain historic US dollar payments practices incurred in 2008, total operating expenses decreased by 7 per cent, reflecting reduced levels of operating lease business and cost savings achieved from the integration programme, partly offset by increased investment in Wholesale's customer focused business support functions.
- **Impairment losses amounted to £15,683 million**, compared to £10,394 million in 2008, reflecting the continued weak economic climate and the application of Lloyds Banking Group prudent impairment assumptions, primarily in HBOS Corporate Real Estate and HBOS (UK and US) Corporate businesses. Total impairment losses are expected to have peaked in the first half of 2009, with a significant reduction in the impairment charge delivered in the second half of 2009 of 39 per cent.
- **Cross-selling from deepening relationships has increased by 26 per cent,** reflecting increased product competencies and opportunities through a single sales force on the combined customer base.
- **Balance sheet reductions,** reflect active de-risking of the balance sheet by either selling down or reducing holdings in debt securities and available-for-sale positions, deleveraging by customers in Wholesale's strategic segments and the impact of impairments and foreign exchange movements.
- **Good progress was made in integrating the Lloyds TSB and HBOS wholesale businesses.** Wholesale's integration synergies for 2009 were ahead of expectations.

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 enlarged division, following the acquisition of HBOS, comprises Corporate Markets, Treasury and Trading and Asset Finance.

Corporate Markets comprises Corporate, Commercial, Corporate Real Estate, Specialist Finance and Wholesale Markets. Corporate, Commercial and Corporate Real Estate provide relationship-based banking, risk management and advisory services to corporate and commercial customers principally in the UK. Relationships with customers with an annual turnover greater than £15 million are managed within Corporate, and commercial property-based relationships (including hotel, property-based leisure and construction) are generally managed within the Corporate Real Estate business. Commercial provides financial services to business customers ranging from new start-ups to those with a turnover of up to £15 million and invoice discounting and factoring services to a broader range of customers. Specialist Finance includes the acquisition finance and private equity businesses; all new business is being written under the brands of Lloyds Acquisition Finance or Lloyds Development Capital. Wholesale Markets provides risk management solutions, specialised lending, capital markets advisory and multi-product financing solutions to its customers, whilst managing the Group's own portfolio of structured credit investments and treasury assets.

WHOLESALE
(continued)

Treasury and Trading's role is to provide access to financial markets in order to meet the Group's balance sheet management requirements, and provides trading infrastructure to support execution of customer-driven risk management transactions, whilst operating within a well controlled and conservative risk appetite.

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

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 has provided approximately £35 billion of committed gross lending to the Corporate and Small and Medium Enterprises (SME) sector during 2009 and recruited approximately 100,000 new commercial accounts. Additionally, Wholesale has expanded its product capability in Wholesale Markets to allow customers to diversify their funding by accessing wider sources of capital markets liquidity, and to manage their interest rate and currency risks in an uncertain operating environment.

For customers who have been adversely impacted by the recession, Wholesale has continued to expand its dedicated Business Support Units across its Corporate and Commercial, Corporate Real Estate and Specialist Finance business areas. Business Support Units offer solutions to customers including providing finance to maintain cash flow and capital restructuring where appropriate. By focusing on effective customer turnaround during turbulent times, Wholesale is deepening relationships and retaining loyal customers.

Wholesale's 'through-the-cycle' commitment to businesses is also supported by other key initiatives such as the SME Business Charter that expects by 2012 to help a further 300,000 people start in business and to stage at least 200 customer seminars a year to help them develop their businesses and to provide additional finance for growth. The Charter ensures that customer interest rates are transparent and reflect the cost of funds and risk in lending to Wholesale's small business customers. In the fourth quarter of 2009, Commercial held a series of regional customer events aimed at helping customers plan for the upturn by providing practical guidance and maximising networking opportunities through bringing local business communities together.

WHOLESALE
(continued)

Integrating the businesses

The Corporate and Commercial businesses have made substantial progress in building on the strengths of both heritages to provide a single relationship face to its strategic customer segments. Risk management processes within all the former HBOS businesses have been brought into line with the more conservative appetite of the Group. The balance sheet capacity of Wholesale Markets has been better aligned with the needs of customers by reducing exposure to assets not specifically required to support its strategic customer segments. The treasury activities of both heritages have been brought under one Treasury and Trading business so that Wholesale is able to provide a single, consistent face to the market. Consolidation and rationalisation of Asset Finance businesses continues, bringing together consumer finance businesses under the Black Horse brand and further centralisation of its sales channel and merging the market-leading Lex and Autolease contract hire businesses.

Wholesale's integration programme is making good progress and synergies for the year are ahead of expectations. The initial planning and organisational design stage has been completed, and the Wholesale Operating Model has been defined. All major systems platform decisions have been made and the first product migrations have been completed. The focus for 2010 is on planning and execution of additional product migrations and strengthening risk systems. Wholesale is on track to deliver its annualised cost savings target by 2011.

Prioritising businesses

Wholesale is investing in product and service capability in businesses where it believes it can grow in a capital and liquidity efficient manner, build competitive customer propositions drawing on its existing strengths, and thereby increase the breadth and depth of trusted customer relationships. Wholesale is building this capability within a prudent risk framework.

In order to build capacity for this investment, Wholesale has systematically reviewed its assets, portfolios and businesses to identify those that are not consistent with its relationship-focused strategic vision. Wholesale aims to maximise near-term returns in these businesses, whilst exploring options for divestment during the next three to five years. These comprise approximately £160 billion of Wholesale's total assets and form part of its commitment under the State Aid restructuring plan.

Financial performance

Loss before tax and fair value unwind increased by £1,121 million to £11,600 million. This increase was driven by increased impairment losses reflecting the continued weak economic climate and the application of prudent Lloyds Banking Group impairment assumptions, primarily in HBOS Corporate Real Estate and

HBOS (UK and US) Corporate businesses, partly offset by an increase in other operating income and a decrease in operating expenses.

Total income increased by £3,459 million, or 63 per cent, to £8,909 million driven by a large increase in other income. Prior year income was significantly lower due to the effect of the market dislocation which resulted in investment valuation write-downs in Wholesale Markets, which were not repeated in the current year. Excluding these amounts total income decreased by 4 per cent as strong performances in Wholesale Markets and Treasury and Trading due to a more favourable interest rate environment, good transaction volumes in capital markets and strong flows of client-driven derivative transactions at improved spreads were more than offset by higher funding costs.

WHOLESALE
(continued)

Operating expenses decreased by £485 million, or 11 per cent, to £4,106 million. Excluding the cost of settlement of certain historic US dollar payments practices, expenses decreased by 7 per cent primarily as a result of reduced levels of operating lease business in Asset Finance and a continued focus on cost management including cost savings attributable to the integration programme.

Impairment losses have increased by £5,289 million to £15,683 million in 2009. Impairment losses for loans and advances as a percentage of average loans and advances to customers were 5.92 per cent in 2009 compared to 3.32 per cent in 2008. Higher levels of failures, and application of prudent Lloyds Banking Group provisioning policy, notably in HBOS Corporate Real Estate and HBOS Corporate (UK and US) transactions, drove a significant increase in impairments in these portfolios. However, total impairment losses are expected to have peaked in the first half of 2009, amounting to £9,738 million, compared to £5,945 million in the second half, a reduction of 39 per cent.

Following detailed in depth reviews of all higher risk portfolios, especially HBOS, Wholesale has applied appropriate assumptions, particularly on HBOS Corporate Real Estate lending which resulted in prudent and significant impairment charges in 2009. As a result, Wholesale is expecting total impairments in 2010 to be significantly lower than 2009 in line with the Group's base economic assumptions. Wholesale expects the volume of underlying impairments from traditional trading and manufacturing businesses to increase in 2010, as the full impact of economic conditions filters into business insolvencies and asset values. This is a factor of a typical lag effect as the economy passes through the recession, and reflects guidance provided in the first half of the year. 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.

The share of losses from joint ventures and associates reduced by £224 million to a loss of £720 million. There were less write-offs in 2009 as the majority of the book is now valued at nil, with a remaining portfolio conservative carrying value of approximately £190 million.

Balance sheet reductions reflect active de-risking of the balance sheet by either selling down or reducing holdings in debt securities and available-for-sale positions, deleveraging by customers in Wholesale's strategic segments and the impact of impairments and foreign exchange movements. Credit markets rallied in the second half of 2009 which brought back some strategic buyers for asset-backed securities (ABS) and allowed Wholesale to sell £3.5 billion notional of non-core ABS positions.

WHOLESALE

COMBINED BUSINESSES RESULTS BY HALF-YEAR

(continued)

Financial performance by business units
Corporate Markets

	2009 £m	2008 £m	***Change %***
Net interest income	**3,756**	4,693	***(20)***
Other income	**2,541**	(1,780)	
Total income	**6,297**	2,913	
Operating expenses	**(2,461)**	(2,583)	***5***
Trading surplus	**3,836**	330	
Impairment	**(14,855)**	(9,896)	***(50)***
Share of results of joint ventures and associates	**(717)**	(943)	*24*
Loss before tax and fair value unwind	**(11,736)**	(10,509)	***(12)***
Cost:income ratio	**39.1%**	88.7%	
Impairment losses as a % of average advances	**6.09%**	3.78%	

Key balance sheet items	**As at 31 Dec 2009 £bn**	As at 31 Dec 2008 £bn	***Change %***
Loans and receivables:			
Loans and advances to customers	**177.7**	216.4	***(18)***
Loans and advances to banks	**4.5**	9.3	***(52)***
Debt securities	**31.7**	40.5	***(22)***
Available-for-sale financial assets	**32.1**	38.3	***(16)***
Customer deposits[1]	**89.7**	96.6	***(7)***
Risk-weighted assets	**263.8**	284.7	***(7)***

(1)

Of which repos represent £35.5 billion (2008: £18.1 billion)

Loss before tax and fair value unwind increased by £1,227 million to £11,736 million, due to an increase in impairment losses, partly offset by an increase in other income.

Total income increased by £3,384 million to £6,297 million as a result of the significantly reduced impact from market dislocation and the absence of investment write downs in 2009. Performance in key income drivers across Commercial Banking, Corporate Banking, Wholesale Markets and Corporate Real Estate are further discussed below.

Commercial Banking net interest income decreased due to the lower base rate environment which impacted margins on some current account and savings products, and other operating income decreased slightly, primarily reflecting lower customer transactions and activity in their businesses, as a consequence of the depressed economic environment.

WHOLESALE
(continued)

Corporate Banking net interest income increased marginally as re-pricing reflected changing risk profiles and higher liquidity costs; however, this was mostly offset by higher funding costs. Average transaction volumes were maintained year on year; however lending showed a decline through 2009 as customers actively deleveraged their balance sheets, aligned with a suppressed appetite for new borrowing in the current economic environment. Other operating income increased by approximately 18 per cent reflecting improved upfront fees, exit fees and commitment commissions.

Wholesale Markets net interest income was approximately 34 per cent lower primarily reflecting the higher cost of funding. Other operating income increased by £4,472 million, primarily due to the absence of prior year investment write downs associated with the dislocated markets and some valuation recoveries in 2009.

Corporate Real Estate net interest income decreased overall due to the increased funding costs and falling levels of income from impaired assets, partly offset by increased margins from asset re-pricing.

Operating expenses decreased by £122 million, or 5 per cent to £2,461 million, as a result of continued focused cost management. After excluding the cost incurred in 2008 on settlement of certain historic US dollar payments practices, operating expenses increased by 2 per cent, with integration savings offset by increased investment in Wholesale's customer focused business support functions, which now employ approximately 1,000 people.

Impairment losses increased by £4,959 million to £14,855 million, due to increased levels of impairments across all areas of Corporate Markets, notably in the HBOS Corporate Real Estate and the HBOS (UK and US) Corporate portfolio. The significant increase in impairments in 2009 was against the backdrop of weaker economic conditions, application of Lloyds Banking Group prudent valuation assumptions, portfolio concentration in property lending, material single name exposures, poorly structured lending agreements and aggressive loan-to-value positions at origination in the legacy HBOS portfolios. However, impairment losses of £9,334 million in the first half of 2009 fell significantly in the second half to £5,521 million, a reduction of 41 per cent.

In 2009, Wholesale has spent a significant amount of time continuing to analyse and address the issues in the legacy HBOS portfolios, with the greatest attention paid to over concentrations in real estate, individual entrepreneurial cases and those other portfolios that fall outside the legacy Lloyds TSB credit risk appetite. As a result, and in particular, Wholesale has applied appropriate assumptions about real estate asset expectations and with the deterioration in the economic conditions translating into lower commercial property valuations, has taken prudent and significant impairment charges. Whilst a recent improvement in property valuations has been noted, this has had a limited impact on the property development portfolio.

The share of losses from joint ventures and associates of £717 million, reduced by £226 million. There were less write-offs in 2009 as the majority of the book is now valued at nil with a remaining portfolio conservative carrying value of approximately £180 million.

Loans and advances to customers decreased by £38.7 billion to £177.7 billion as an estimated £20 billion of total lending drawdowns in the year was more than offset by scheduled amortisations and repayments and the impact of customers deleveraging their balance sheets by using alternative forms of funding. The decrease was also driven by the transfer of a £7 billion European loan portfolio to Wealth and International, significant impairment losses in 2009 and foreign exchange movements, partially offset by the unwind of fair value adjustments booked on acquisition of HBOS.

WHOLESALE
(continued)

Debt securities and available for sale financial assets balances reduced by £15.0 billion as Corporate Markets
de-risked the balance sheet by either selling down or not replenishing total holdings after amortisations or maturities.

Treasury and Trading

	2009	2008	***Change***
	£m	£m	***%***
Net interest income	**544**	746	***(27)***
Other income	**238**	(193)	
Total income	**782**	553	***41***
Operating expenses	**(187)**	(188)	***1***
Trading surplus	**595**	365	***63***
Impairment	**-**	(92)	
Profit before tax and fair value unwind	**595**	273	
Cost:income ratio	**23.9%**	34.0%	

	As at 31 Dec 2009	As at 31 Dec 2008	***Change***
Key balance sheet and other items	**£bn**	£bn	***%***
Loans and receivables:			
Loans and advances to customers	**2.5**	4.8	***(48)***
Loans and advances to banks	**14.4**	27.7	***(48)***
Available-for-sale financial assets	**4.8**	35.8	***(87)***
Customer deposits	**63.7**	61.3	***4***
Risk-weighted assets	**8.4**	11.6	***(28)***

Profit before tax and fair value unwind increased by £322 million to £595 million.

Income performance benefited from strong customer demand for interest rate and foreign exchange products, market volatility and both internal and external demand for Treasury's pricing and risk management service, albeit at more moderate levels in the second half of 2009. Trading flows are managed with the overriding aim of providing a service to customers, whilst maintaining Treasury and Trading's conservative risk appetite.

Operating expenses reduced by £1 million to £187 million reflecting a continued focus on cost management and cost savings achieved through integration.

Impairment losses of £92 million in 2008 reflected the impact of a number of high profile financial services company failures in the second half of 2008.

The reduction in available-for-sale financial assets is a result of the decision to sell the majority of these assets, which were held for liquidity purposes, and increase deposits with the Bank of England, thereby improving the quality of the liquid asset portfolio.

WHOLESALE
(continued)

Asset Finance

	2009	2008	***Change***
	£m	£m	***%***
Net interest income	**410**	313	***31***
Other income	**1,420**	1,671	***(15)***
Total income	**1,830**	1,984	***(8)***
Operating expenses	**(1,458)**	(1,820)	**20**
Trading surplus	**372**	164	
Impairment	**(828)**	(406)	
Share of results of joint ventures and associates	**(3)**	(1)	
Loss before tax and fair value unwind	**(459)**	(243)	***(89)***
Cost:income ratio	**79.7%**	91.7%	
Impairment losses as a % of average advances	**5.86%**	2.53%	

	As at 31 Dec 2009	As at 31 Dec 2008	***Change***
Key balance sheet and other items	**£bn**	£bn	***%***
Loans and advances to customers	**11.6**	13.4	***(13)***
Operating lease assets	**3.4**	3.9	***(13)***
Risk-weighted assets	**13.8**	14.7	***(6)***

Loss before tax and fair value unwind increased by £216 million to £459 million due to higher impairment losses, partially offset by a decrease in operating expenses.

Total income decreased by £154 million, or 8 per cent, to £1,830 million from lower business volumes on assets held under operating leases, lower insurance income in the Personal Finance business due to the move to a monthly premium product as well as reduced new business volumes. This was offset in part by margin improvement across the consumer finance businesses.

Operating expenses decreased by £362 million, or 20 per cent, to £1,458 million, reflecting the impact of lower business volumes reducing depreciation charges on assets held under operating lease, year on year improvement in used car values and cost savings achieved from integration.

Impairment losses increased by £422 million to £828 million, reflecting increases in impairment in both the retail and non-retail consumer finance businesses. In retail consumer finance, impairment increases reflected both the increase in the number of customers going into arrears and changes in the expected recovery rates on the defaulted second lien portfolio resulting from house price deflation, which has now stabilised. The business has also seen a significant increase in the number of corporate failures within its non-retail books which have also caused an increase in the impairment charge.

WEALTH AND INTERNATIONAL

	2009 £m	2008 £m	***Change %***
Net interest income	**1,217**	1,314	***(7)***
Other income	**1,128**	1,191	***(5)***
Total Income	**2,345**	2,505	***(6)***
Operating expenses	**(1,544)**	(1,476)	***(5)***
Trading surplus	**801**	1,029	***(22)***
Impairment	**(4,078)**	(731)	
Share of results of joint ventures and associates	**(21)**	(21)	
Profit (loss) before tax and fair value unwind	**(3,298)**	277	
Fair value unwind	**942**	-	
Profit (loss) before tax	**(2,356)**	277	
Wealth	**198**	369	
International	**(3,496)**	(92)	
Profit (loss) before tax and fair value unwind	**(3,298)**	277	
Banking net interest margin	**1.71%**	2.06%	
Cost:income ratio	**65.8%**	58.9%	
Impairment losses as a % of average advances	**6.04%**	1.05%	
Number of employees (full-time equivalent)	**10,503**	10,805	

Key balance sheet and other items	**As at 31 Dec 2009 £bn**	As at 31 Dec 2008 £bn	***Change %***
Loans and advances to customers	**63.5**	64.6	***(2)***
Customer deposits	**29.0**	34.1	***(15)***
Risk-weighted assets	**63.2**	61.2	***3***

WEALTH AND INTERNATIONAL
(continued)

Key highlights

·

Loss before tax and fair value unwind amounted to £3,298 million,
compared to a profit of £277 million in 2008
due to higher levels of impairment.

·

Total income has decreased by 6 per cent to £2,345 million,
reflecting lower net interest margins, and the impact of lower global stock markets particularly in the first half of the year, partly offset by favourable foreign exchange movements.

·

Net interest income has decreased by 7 per cent to £1,217 million,
the banking net interest margin decline of 35 basis points reflects higher wholesale funding costs and lower deposit margins in the low base rate environment, partly offset by the impact of strong portfolio management in International, leading to an underlying gross asset reduction of 7 per cent, and higher asset pricing leading to higher margins.

·

Targeted cost management has delivered benefits,
excluding the impact of foreign exchange movements and additional costs associated with transitional services in the Australian business, underlying costs were slightly lower than 2008 due to cost savings achieved from integration partly offset by investments into higher growth areas and business support functions.

·

Impairment losses amounted to £4,078 million,
compared to £731 million in 2008, reflecting the significant deterioration in the credit risk environment in Ireland and Australia. The impairment charge for Wealth and International is expected to have peaked in 2009, although the economic conditions in Ireland continue to be monitored closely.

·

Good progress was made in integrating the Lloyds TSB and HBOS Wealth and international businesses,

Wealth and International's integration synergies for 2009 were ahead of expectations.

·

Loans and advances to customers have decreased by 2 per cent to £63.5 billion,
primarily due to net repayments and increased impairment provisions in the International businesses offset by the transfer of a £7 billion European loan portfolio from Wholesale division.

·

Customer deposits have decreased by 15 per cent to £29.0 billion,
primarily due to outflows in Ireland reflecting aggressive pricing from competitors who have also benefited from the Irish Government deposit guarantee.

Business overview

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

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

WEALTH AND INTERNATIONAL
(continued
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The International business comprises the Group's other international banking businesses outside the UK, with the exception of corporate business in North America which is managed through the Group's Wholesale division. These largely comprise corporate, commercial and asset finance businesses in Australia, Ireland and Continental Europe and retail businesses in Ireland, Germany and the Netherlands.

Strategic vision
Wealth represents a key growth opportunity for the Group and, through deepening the relationships with existing Group clients alongside targeted external customer acquisition, Wealth's goal is to be recognised as the trusted adviser to expatriate and private banking clients both in the UK and selected international markets. Wealth's initial focus in the UK will be to increase the penetration of its offering into the Group's existing customer base by referring wealthier customers to its private banking businesses where their wider financial needs can be more effectively met. Outside the UK Wealth will be building on the strengths of its brand portfolio and existing expatriate, offshore and international private banking propositions.

Wealth also represents an opportunity to diversify income growth to less capital intensive businesses and, following an initial outflow of price sensitive deposits in 2009, contribute valuable relationship based customer deposits to improve the Group's funding profile.

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

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. The total number of Wealth relationship clients increased by 8 per cent to approximately 300,000 at the end of 2009, including a 13 per cent increase within UK Wealth. Net new inflows of funds under management in the year were £7 billion.

Maximising value in the short to medium term
In International, the focus is on managing the impaired asset portfolio with redeployment of resource from front line activity and the wider Group to manage arrears and collections. The business is responding to the challenging environment through strong portfolio management and repricing assets as opportunities arise.

Integration
Wealth and International is making good progress with the integration of its Wealth operations, including private banking and in particular its asset management businesses. The internal funds management business of Insight Investment has now been transferred to Scottish Widows Investment Partnership pushing it into the top five largest UK active asset managers, with funds under management of £142 billion. Wealth and International is on track to deliver its annualised cost savings target by 2011.

WEALTH AND INTERNATIONAL
(continued
)

On 9 February 2010 the Group announced its intention to reshape the Irish business to reflect the continuing difficult economic environment and secure a viable future. The Group intends to close both the Halifax retail business in the Republic of Ireland and the Bank of Scotland (Ireland) intermediary business and refocus the Irish business on its established strengths and long standing ICC Bank heritage of corporate and commercial banking. The resulting closure of 44 Halifax retail branches and the majority of the associated job losses are planned to take place by the end of July 2010.

Financial performance by business unit

Wealth

	2009	2008	***Change***
	£m	£m	***%***
Net interest income	**383**	445	***(14)***
Other income	**1,003**	1,096	***(8)***
Total Income	**1,386**	1,541	***(10)***
Operating expenses	**(1,119)**	(1,130)	***1***
Trading surplus	**267**	411	***(35)***
Impairment	**(71)**	(23)	
Share of results of joint ventures and associates	**2**	(19)	
Profit before tax and fair value unwind	**198**	369	***(46)***
Cost:income ratio	**80.7%**	73.3%	
Impairment losses as a % of average advances	**0.70%**	0.22%	

	As at 31 Dec 2009	As at 31 Dec 2008	***Change***
Key balance sheet and other items	£bn	£bn	***%***
Loans and advances to customers	**9.2**	10.4	***(12)***
Customer deposits	**23.2**	26.7	***(13)***
Risk-weighted assets	**10.0**	11.6	***(14)***

Profit before tax and fair value unwind decreased by 46 per cent to £198 million primarily due to lower income.

Total income decreased by £155 million, or 10 per cent, to £1,386 million. Net interest income decreased by £62 million, or 14 per cent, to £383 million reflecting margin compression driven by reducing base rates and a very competitive deposit market which led to an outflow in deposits of £3.5 billion. Other income decreased by £93 million, or 8 per cent, to £1,003 million driven by falls in global stock markets particularly in the first half of 2009, impacting sales volumes and fee income across all Wealth businesses.

Operating expenses decreased by £11 million to £1,119 million driven by cost savings from integration, particularly in the Asset Management business, offset by investments to increase distribution capacity in Private Banking to support future growth plans and the negative impact of foreign exchange movements, principally arising from the stronger Euro.

WEALTH AND INTERNATIONAL (continued)

Impairment losses have increased by £48 million to £71 million, reflecting the impact of the economic environment on the UK Private Banking and Expatriate lending portfolios.

The Wealth results include total income of £66 million and operating expenses of approximately £65 million relating to the external fund management business of Insight Investment which was sold in November 2009. No material gain or loss arose on the disposal.

Funds under management		**2009**	2008
		£bn	£bn
SWIP and Insight:			
Internal		**111.7**	95.0
External		**30.0**	107.2
		141.7	202.2
Other Wealth:			
St James's Place		**21.4**	16.3
Invista		**5.4**	6.3
Other (including Private Banking)		**15.6**	20.1
Closing funds under management		**184.1**	244.9
Opening funds under management		244.9	253.0
Inflows:			
SWIP and Insight	- internal	**7.1**	8.4
	- external	**33.1**	31.3
Other		**4.1**	5.5
		44.3	45.2
Outflows:			
SWIP and Insight	- internal	**(6.8)**	(11.9)
	- external	**(26.4)**	(15.9)
Other		**(4.0)**	(3.2)
		(37.2)	(31.0)
Investment return, expenses and commission		**16.4**	(22.3)

Net operating increase (decrease) in funds[1]	**23.5**	(8.1)
		-
Sale of Insight	**(84.3)**	
Closing funds under management	**184.1**	244.9

(1)
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.

Excluding the impact of the sale of Insight Investment's external fund management business, funds under management are £23.5 billion higher than December 2008 due to strong inflows and a broad recovery in equity values in the second half of 2009.

WEALTH AND INTERNATIONAL
(continued
)

International	**2009** **£m**	2008 £m	***Change*** ***%***
Net interest income	834	869	***(4)***
Other income	125	95	*32*
Total Income	959	964	***(1)***
Operating expenses	**(425)**	(346)	***(23)***
Trading surplus	534	618	***(14)***
Impairment	**(4,007)**	(708)	
Share of results of joint ventures and associates	**(23)**	(2)	
Loss before tax and fair value unwind	**(3,496)**	(92)	
Cost:income ratio	**44.3%**	35.9%	
Impairment losses as a % of average advances	**6.99%**	1.18%	

Key balance sheet and other items	**As at 31 Dec 2009** £bn	As at 31 Dec 2008 £bn	***Change*** %
Loans and advances to customers	**54.3**	54.2	**-**
Customer deposits	**5.8**	7.4	***(22)***
Risk-weighted assets	**53.2**	49.6	***7***

Loss before tax and fair value unwind increased by £3,404 million to £3,496 million due to an increase in impairment losses, reflecting the significant deterioration in the credit risk environment, particularly in relation to commercial real estate lending in Ireland and Australia, and concentrations in sectors most impacted by the downturn in Australia such as printing, media and transport.

Excluding favourable foreign exchange movements of approximately £120 million, total income fell by 13 per cent to £959 million reflecting higher wholesale funding costs, the impact on net interest income of the increase in impaired assets and a very competitive deposit market, partly offset by improved customer lending margins.

Excluding adverse foreign exchange movements of approximately £40 million, operating expenses increased by 10 per cent to £425 million driven by additional costs associated with the transitional services following the disposal by HBOS of BankWest and St. Andrews Australia in December 2008, 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 and loans and advances to customers are summarised by key geography in the following table.

	Impairment losses		**Loans and advances**	
			As at 31 Dec	As at 31 Dec
	2009	2008	**2009**	2008
	£m	£m	**£bn**	£bn
Ireland	**2,949**	526	**24.9**	29.6
Australia	**849**	164	**13.0**	12.3
Wholesale Europe	**129**	9	**8.6**	3.5
Latin America/Middle East	**69**	2	**0.6**	1.0
Netherlands	**11**	7	**7.2**	7.8
	4,007	708	**54.3**	54.2

Impairment losses have increased by £3,299 million to £4,007 million. Of the total impairment losses £2,949 million arose in Ireland which experienced a significant deterioration in asset values driven by the collapse in liquidity and severe decline in the property sector which saw commercial real estate values fall by over 50 per cent and house prices by over 25 per cent from their peak. A further £849 million of the total impairment losses arose in Australia driven by concentrations in property and in other sectors such as media, printing and transport which have been hardest hit by the downturn. Business Support Units have been established in both Ireland and Australia, supplemented by a divisional sanctioning process, to provide independent divisional oversight and control of the portfolios.

Loans and advances to customers include the transfer of a £7 billion European loan portfolio from Wholesale division in the second half year. The impact of this is offset by net repayments across all businesses and higher impairment provisions.

Customer deposits fell by 22 per cent to £5.8 billion, principally in Ireland reflecting aggressive pricing from competitors who have also benefited from the Irish Government deposit guarantee. This was partly offset by a strong performance in Bank of Scotland Germany, which raised over €1 billion of deposits since its launch in January 2009.

INSURANCE

	2009 £m	2008 £m	Change %
Net interest income	**(287)**	(345)	***17***
Other income	**2,944**	3,493	***(16)***
Total income	**2,657**	3,148	***(16)***
Insurance claims	**(637)**	(481)	***(32)***
Total income, net of insurance claims	**2,020**	2,667	***(24)***
Operating expenses	**(974)**	(1,129)	***14***
Share of results of joint ventures and associates	**(22)**	2	
Profit before tax and fair value unwind	**1,024**	1,540	***(34)***
Fair value unwind	**(49)**	-	
Profit before tax	**975**	1,540	***(37)***
Profit before tax and fair value unwind by business unit			
Life, Pensions and Investments - UK business	**617**	826	***(25)***
- European business	**75**	149	***(50)***
General Insurance	**367**	537	***(32)***
Other(1)	**(35)**	28	
Profit before tax and fair value unwind	**1,024**	1,540	***(34)***
EEV new business margin	**2.5%**	3.1%	
	10,569	11,625	

Number of employees (full-time equivalent)

(1)
Includes certain divisional costs and income not allocated to business units, as well as the division's share of results of joint ventures and associates.

INSURANCE
(continued)

Key highlights

- Profit before tax and fair value unwind amounted to £1,024 million, a decrease of £516 million on 2008, resulting from a reduction in income and an increase in claims, due to factors including demanding market conditions, partly offset by a decrease in operating expenses.
- Total income net of insurance claims has decreased by £647 million to £2,020 million, due to the non-recurrence of £334 million of HBOS legacy one-off benefits, a £156 million increase in insurance claims and the impact of challenging economic conditions driving lower sales and returns, partially offset by significantly lower charges for policyholder lapses.
- Life, Pensions and Investments UK sales of £12,973 million (PVNBP) reduced by 26 per cent. In addition to the general contraction in the market, sales were significantly impacted as the intermediary sales forces were integrated and a number of HBOS legacy products with poor returns were withdrawn. These factors led to sales through the intermediary channel reducing by 35 per cent. Bancassurance sales, excluding payment protection, were resilient given the challenging market conditions with a reduction of 11 per cent from 2008. Sales of OEIC products delivered strong growth of 12 per cent.
- Life, Pensions and Investments EEV new business margin for the year was 2.5 per cent. The margin for the second half of 2009 increased to 2.6 per cent from 2.4 per cent in the first half, reflecting strong cost control and increased focus on the profitability of the combined product range.
- Life, Pensions and Investments Europe profits have decreased by 50 per cent to £75 million, due to lower new business levels arising from the significant downturn in the German market and lower expected return.
- General Insurance profits have decreased by 32 per cent to £367 million, due to a £156 million increase in claims, primarily unemployment related, lower investment returns and the market wide move to monthly premium payment protection business.
- Strong cost management delivering benefits. Operating expenses have decreased by £155 million to £974 million mainly due to continued focus on cost management and delivering integration synergies. Underlying operating expenses reduced by 8 per cent allowing for certain reclassifications and non-recurring items.
-

Good progress was made in integrating the legacy Lloyds TSB and HBOS Insurance businesses. Insurance
division integration synergies of £55 million for 2009 were ahead of expectations.

·

Increase
in funds under management to £122 billion,
primarily as a result of improved investment markets during 2009.

·

The capital position of the two life insurance groups within the Division remains robust with increases in Insurance Group Directive (IGD) capital surpluses.

·

On 11 February 2010 the Division disposed of its joint venture investment in esure.

Business overview

The Insurance division consists of three business units:

Life, Pensions and Investments UK

The UK Life, Pensions and Investments business is the leading bancassurance provider in the UK and has one of the largest intermediary sales forces in the industry. The business includes Scottish Widows which, for a number of years, has been a subsidiary of the Lloyds TSB Group and the provider of long-term savings and investment products distributed through all channels of that group. Following the acquisition of HBOS, the Life, Pensions and Investments business also includes business written through the intermediary and bancassurance channels under the Clerical Medical and Halifax brands respectively.

INSURANCE
(continued)

Life, Pensions and Investments Europe

The European Life, Pensions and Investments business distributes products primarily in the German market under the Heidelberger Leben and Clerical Medical brands. The business unit was included within the International division of the former HBOS group.

General Insurance

The combined General Insurance business is a leading distributor of home and payment protection insurance in the UK, with products sold through the branch network, direct channels and strategic corporate partners. The business is one of the largest underwriters of personal insurance business in the UK and also has significant brokerage operations for personal and commercial insurances. It operates primarily under the Lloyds TSB, Halifax and Bank of Scotland brands.

Strategic vision

The Insurance division's strategic vision is to be recognised as the best
insurance business

by its customers, staff and shareholders

. The Division has set itself four strategic objectives to achieve its vision of being the best Insurance business in the UK:

·

complete the integration of its market leading businesses,

·

continue to strengthen its leading brands and grow sales profitably in its targeted markets,

Number of employees (full-time equivalent)

·
enhance the capital and operational efficiency of existing and future business, and
·
leverage Lloyds Banking Group strengths in distribution and asset management.

Progress against strategic initiatives

Integrating the businesses
The integration of the legacy Life, Pensions and Investments businesses and the legacy General Insurance businesses have progressed well with the 2009 synergy benefits of £55 million significantly exceeding initial expectations. This has been achieved by aligning management structures, moving to a consistent operating model in each business, reducing the number of servicing sites in Life, Pensions and Investments and removing duplicated support functions across both legacies. The full year impact of integration activities already completed and the benefit of planned synergies is expected to lead to further cost reductions in future.

Sustainable profitable growth
Delivering profitable new business growth remains a key area of focus for the Division. The intermediary sales forces of Scottish Widows and Clerical Medical were combined under the Scottish Widows brand on 1 July 2009 and work is well progressed in developing an integrated bancassurance proposition, planned to be launched mid 2010. The combined business will seek to build on the strengths inherent in each of the legacies and will use the financial return and capital disciplines employed by Scottish Widows. During the year certain legacy HBOS products were withdrawn and replaced by higher returning Scottish Widows products. This change in product offering, in keeping with the divisions strategic objectives, enhances the customer proposition, improves capital efficiency and increases shareholder return.

In General Insurance, growth in home insurance sales continued along with a resilient underwriting performance in 2009. Despite adverse weather claims in the year, the underwriting performance of the home book remained strong with a claims ratio of 36 per cent.

INSURANCE
(continued)

Operational and capital efficiency
The Insurance division continues to focus on cost reduction, with underlying costs decreasing by 8 per cent after allowing for the allocation of Lloyds TSB Insurance (LTSBI) claims handling expenses to claims rather than expenses in 2009 and the non-recurrence of certain 2008 HBOS marketing costs. Another major factor has been a reduction in staff numbers. The synergy savings and additional operational efficiencies have been achieved without compromising the quality of customer service with customer satisfaction scores remaining robust across the businesses.

Improving capital efficiency remained a key priority throughout 2009. At a product level, initiatives focused on improving return on capital for example by continuing to move away from products with initial commission and changes in product design which allow for capital to be recovered more quickly. Capital efficiency was further enhanced through the repurchase of £0.6 billion of Clerical Medical's subordinated capital. In 2009, dividends totalling £0.5 billion were paid by companies in the Insurance division to the Group and a number of hedging initiatives were completed with the aim of managing capital and profit volatility.

Leveraging distribution and asset management

Number of employees (full-time equivalent)

For Life, Pensions and Investments work is well progressed in developing an integrated bancassurance proposition, planned to be launched mid 2010. In conjunction with Scottish Widows Investment Partnership, during 2009 Life, Pensions and Investments UK also made good progress in further developing its OEIC proposition, leading to strong sales of its new capital protected fund OEIC.

In General Insurance, Home insurance total gross written premiums through the bancassurance network increased by 5 per cent. Home retention rates for both brands in the retail business improved in the second half of the year as a result of a combination of an improving market and a customer loyalty programme.

INSURANCE
(continued)

Life, Pensions and Investments

UK business

	2009	2008	***Change***
	£m	£m	***%***
Net interest income	**(273)**	(282)	***3***
Other income	**1,474**	1,758	***(16)***
Total income	**1,201**	1,476	***(19)***
Operating expenses	**(584)**	(650)	***10***
Profit before tax and fair value unwind	**617**	826	***(25)***

Profit before tax analysis

	2009	2008	***Change***
New business profit - insurance business[1]	**328**	465	***(29)***
- investment business[1]	**(196)**	(247)	***21***
Total new business profit	**132**	218	***(39)***
Existing business profit	**483**	534	***(10)***
Expected return on shareholders' net assets	**2**	74	***(97)***
Profit before tax and fair value unwind	**617**	826	***(25)***
EEV new business margin (UK)	**2.6%**	3.0%	

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

Profit before tax and fair value unwind decreased by £209 million. New business profit was significantly impacted by the general contraction in the life, savings and investments market but the reduction also reflects the integration of the intermediary sales forces and the withdrawal of a number of legacy HBOS products with poor returns. The EEV new business margin (UK) fell to 2.6 per cent in 2009 largely due to the transitional basis of commission payable on legacy HBOS products through the bancassurance channel. However, the UK margin increased to 2.7 per cent in the second half of 2009 from 2.5 per cent in the first reflecting strong cost control and increased focus on the profitability of the combined product range. The margin in respect of Scottish Widows products increased to 3.5 per cent in 2009 from 3.2 per cent in 2008.

Existing business profit has reduced by 10 per cent. The figure includes a reduction in expected return, reflecting lower asset values resulting from adverse investment markets in 2008, a lower assumed rate of return and the non-recurrence of one-off benefits in HBOS of £211 million relating to a move to a more market consistent basis of embedded value and enhancements to the bond proposition. Those impacts have been partly offset by a significant reduction in charges for policyholder lapses in 2009. The customer loyalty programmes have proved to be increasingly successful during 2009 but given the potential volatility of behaviour caused by turbulent markets an appropriately prudent approach has been taken in the assessment of future trends.

Expected returns on shareholders net assets were impacted both by a lower assumed rate of return and reduced asset values as a result of severe market falls in 2008.

INSURANCE
(continued)

The capital positions of the UK life insurance companies within the Insurance division remain robust. As at 31 December 2009, the estimated Insurance Groups Directive (IGD) capital surplus for the Scottish Widows Insurance group was £1.3 billion, with additional surplus within the Long Term fund of an estimated £1.1 billion, and the estimated IGD capital surplus for the HBOS Insurance group was £1.6 billion. The IGD capital surpluses include £0.5 billion and £0.1 billion respectively of assets in the Long Term Fund, as allowed by the FSA in December 2009, not previously recognised in the calculation of IGD capital.

European business
Profit before tax decreased by 50 per cent to £75 million. New business profits reduced by £32 million driven by lower sales, reflecting economic and market conditions. Existing business profits decreased, primarily due to lower expected returns. In 2008, as a result of moving to a more market consistent basis of embedded value in HBOS, a one-off benefit of £123 million arose. The impact of this was largely offset by a significant reduction in charges for policyholder lapses in 2009.

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:

	UK	Europe	**2009 Total**	UK	Europe	2008 Total	***Change***
	£m	**£m**	**£m**	£m	£m	£m	***%***
Protection	**519**	**49**	**568**	492	51	543	***5***
Payment protection	**153**	**-**	**153**	679	-	679	***(77)***
Savings and investments	**2,689**	**312**	**3,001**	4,149	372	4,521	***(34)***
Individual pensions	**2,275**	**185**	**2,460**	4,216	306	4,522	***(46)***
Corporate and other pensions	**2,600**	**-**	**2,600**	2,940	-	2,940	***(12)***

and fair value unwind

Retirement income	**887**	**-**	**887**	1,451	-	1,451	***(39)***
Managed fund business	**146**	**-**	**146**	216	-	216	***(32)***
Life and pensions	**9,269**	**546**	**9,815**	14,143	729	14,872	***(34)***
OEICs	**3,704**	**-**	**3,704**	3,303	-	3,303	***12***
Total	**12,973**	**546**	**13,519**	17,446	729	18,175	***(26)***
Analysis by channel							
Bancassurance ex payment protection	**6,844**	**-**	**6,844**	7,677	-	7,677	***(11)***
Payment protection	**153**	**-**	**153**	679	-	679	***(77)***
Bancassurance	**6,997**	**-**	**6,997**	8,356	-	8,356	***(16)***
Intermediary	**5,639**	**546**	**6,185**	8,704	729	9,433	***(34)***
Direct	**337**	**-**	**337**	386	-	386	***(13)***
Total	**12,973**	**546**	**13,519**	17,446	729	18,175	***(26)***

INSURANCE
(continued)

The present value of new business premiums reduced by 26 per cent, reflecting both a general contraction in the UK and European markets as well as the re-positioning of the UK intermediary product range. Sales through the intermediary channel were significantly impacted as the UK intermediary sales forces were integrated and a number of legacy HBOS products with poor returns were withdrawn. As a result, sales in the intermediary channel reduced by 34 per cent. Sales through the bancassurance channel, excluding payment protection, continued to perform relatively robustly with a reduction of 11 per cent. This includes Scottish Widows sales through the bancassurance network which showed good growth of 18 per cent. Sales of OEIC products were strong with an increase of 12 per cent in 2009.

General Insurance	**2009 £m**	**2008 £m**	***Change %***
Home insurance			
Underwriting income (net of reinsurance)	**897**	885	***1***
Commission receivable	**71**	50	***42***
Commission payable	**(94)**	(70)	***(34)***
	874	865	***1***
Payment protection insurance			
Underwriting income (net of reinsurance)	**731**	860	***(15)***
Commission receivable	**13**	428	***(97)***
Commission payable	**(395)**	(923)	***57***
	349	365	***(4)***
Other			
Underwriting income (net of reinsurance)	**8**	20	***(60)***
Commission receivable	**69**	71	***(3)***
Commission payable	**(28)**	(36)	***22***
Other (including investment income)	**(6)**	93	
	43	148	***(71)***
Net operating income	**1,266**	1,378	***(8)***
Claims paid on insurance contracts (net of reinsurance)	**(637)**	(481)	***(32)***
Operating income, net of claims	**629**	897	***(30)***

and fair value unwind

Operating expenses	**(262)**	(360)	***27***
Profit before tax	**367**	537	***(32)***
Claims ratio	**35%**	25%	
Combined ratio	**83%**	76%	

Profit before tax and fair value unwind from General Insurance decreased by £170 million to £367 million.

Claims were £156 million higher than 2008, primarily due to higher payment protection insurance claims related to unemployment. This also reflects the reclassification of LTSBI Claims Handling expenses into claims paid in 2009. Whilst property claims were impacted by flooding and freeze claims in the final quarter of the year, benefits from ongoing investments in claims processes continue to be realised.

INSURANCE
(continued)

Against the background of a particularly competitive market in which the general insurance business has a leading position, home insurance income generated modest growth of 1 per cent to £874 million. Payment protection insurance income decreased by £16 million, or 4 per cent, to £349 million as a result of the market wide move to monthly premiums on payment protection, partly offset by lower distribution commission payable to the Retail division.

Other income has reduced, primarily reflecting lower interest rates and the allocation of certain charges.

Operating expenses decreased by £98 million, or 27 per cent, to £262 million. Adjusting for the reclassification of claims handling expenses into claims paid and non-recurring marketing spend in 2008, costs improved by 10 per cent year on year, reflecting continued focus on cost management and cost savings achieved through
the integration.

GROUP OPERATIONS

	2009	2008[1]	***Change***
	£m	£m	*%*
Net interest income	**(69)**	(59)	***(17)***
Other income	**20**	35	***(43)***
Total Income	**(49)**	(24)	
Direct costs:			
Information technology	**(1,265)**	(1,347)	***6***
Operations	**(555)**	(542)	***(2)***
Property	**(979)**	(1,019)	***4***
Procurement	**(166)**	(159)	***(4)***
Support functions	**(101)**	(89)	***(13)***
	(3,066)	(3,156)	***3***
Result before recharges to divisions	**(3,115)**	(3,180)	***2***

and fair value unwind

Total net recharges to divisions	**2,941**	3,100	***(5)***
Share of results of joint ventures and associates	**3**	4	***(25)***
Loss before tax and fair value unwind	**(171)**	(76)	
Fair value unwind	**22**	-	
Loss before tax	**(149)**	(76)	***(96)***

(1) 2008 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 2009 performance, 2008 direct costs have been increased with an equivalent offsetting increase in recharges to divisions.

Financial performance

Group Operations' direct costs decreased by 3 per cent or £90 million in the year to £3,066 million due the impact of integration synergies (note 3 on page 59) and a continued focus on cost management.

Analysed by business function, IT costs decreased by £82 million, or 6 per cent, to £1,265 million, driven by the early realisation of synergy savings due to the consolidation of IT operations across the Group in addition to lower investment spend as project activity was rationalised and replaced by integration activity. Within Operations, costs were broadly flat, increasing by only £13 million to £555 million. Activity during 2009 has focused on centralising and then rationalising the Group's operational activities. A great deal of centralisation activity occurred in the second half of the year which resulted in increased spend within the division compared to the first half of the year but in doing so significant efficiencies have been realised which will become evident in the 2010 run-rate. In addition increased recruitment in the Collections and Recoveries business meant that the Group was able to offer pro-active assistance to customers in financial difficulty thereby helping to minimise the impact of impairment losses on the Retail, Wholesale and Wealth and International divisions.

GROUP OPERATIONS
(continued)

Property costs have decreased by £40 million, or 4 per cent, to £979 million primarily due to the realisation of synergy savings as a result of the integration and the consolidation of premises (which has been achieved at a faster rate than originally anticipated). Procurement costs have increased by £7 million, or 4 per cent, to £166 million due to an £11 million charge in respect of joint ventures.

Group Operations' support function costs have increased by £12 million, or 13 per cent, to £101 million, primarily driven by costs of £15 million relating to investments to further improve payments filtering and ensuring that the demands of increased regulation are met. Underlying support function costs have remained flat compared to 2008.

CENTRAL ITEMS

	2009	2008
	£m	£m
Net interest income	**(815)**	(213)
Other income	**1,780**	(223)
Total income	**965**	(436)

and fair value unwind

Operating expenses	**(294)**	(21)
Trading surplus (deficit)	**671**	(457)
Impairment	**-**	(60)
Share of results of joint ventures and associates	**(1)**	-
Profit (loss) before tax and fair value unwind	**670**	(517)
Fair value unwind	**(2,119)**	-
Loss before tax	**(1,449)**	(517)

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

Central items profit before tax and fair value unwind amounted to £670 million, compared to a loss of £517 million in 2008.
Total income increased by £1,401 million to £965 million primarily as a result of gains arising when the Group exchanged certain existing subordinated debt securities for new securities. These exchanges resulted in a gain on extinguishment of the existing liability of £1,498 million (of which £1,468 million is reflected in Central items), being the difference between the carrying amount of the security extinguished and the fair value of the new security together with related fees and costs (note 4, page 109).

Operating expenses increased by £273 million to £294 million due to higher professional fees and other costs associated with a number of group wide projects including GAPS and an increase in the amounts of pension costs held centrally.

ADDITIONAL INFORMATION ON A COMBINED BUSINESSES BASIS

1.
Basis of preparation of combined businesses information

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

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

- the 2008 results include the results of HBOS as if it had been acquired on 1 January 2008;
- the 2009 results assume HBOS had been owned throughout the year;
- the unwind of acquisition-related fair value adjustments are shown as one line in the 2009 combined businesses income statement and have not been back-dated to 2008; and
- the gain on acquisition of HBOS and amortisation of purchased intangible assets have been excluded.

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

- the results of BankWest and St. Andrews, sold in December 2008, and the related loss on disposal;
- insurance and policyholder interests volatility;
- integration costs;
- goodwill impairment; and
- GAPS fee.

Comparisons with the 31 December 2009 statutory balance sheet are made with the combined businesses balance sheet as at 31 December 2008, which aggregates the Lloyds TSB Group and the HBOS Group balance sheets as at 31 December 2008, adjusted for the subsequent recapitalisation in January 2009 and reflects the fair value adjustments applied to the HBOS balance sheet as at 16 January 2009.

1.

Basis of preparation of combined businesses information (continued)

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

			Removal of:				
2009	**Lloyds Banking Group statutory £m**	**Pre-acquisition results of HBOS £m**	**GAPS fee and acquisition related items(1) £m**	**Volatility £m**	**Insurance gross up £m**	**Fair value unwind £m**	**Combined businesses £m**
Net interest income	**9,026**	**243**	**-**	**11**	**1,280**	**2,166**	**12,726**
Other income	**36,271**	**(1,123)**	**-**	**(479)**	**(21,659)**	**(1,135)**	**11,875**
Total income	**45,297**	**(880)**	**-**	**(468)**	**(20,379)**	**1,031**	**24,601**
Insurance claims	**(22,019)**	**1,349**	**-**	**-**	**20,318**	**(285)**	**(637)**
Total income, net of	**23,278**	**469**	**-**	**(468)**	**(61)**	**746**	**23,964**

and fair value unwind

insurance claims							
Operating expenses	**(15,984)**	**(293)**	**4,589**	**-**	**61**	**18**	**(11,609)**
Trading surplus (deficit)	**7,294**	**176**	**4,589**	**(468)**	**-**	**764**	**12,355**
Impairment	**(16,673)**	**(456)**	**-**	**-**	**-**	**(6,859)**	**(23,988)**
Share of results of joint ventures and associates	**(752)**	**-**	**-**	**(10)**	**-**	**(5)**	**(767)**
Gain on acquisition	**11,173**	**-**	**(11,173)**	**-**	**-**	**-**	**-**
Fair value unwind		**-**	**-**	**-**	**-**	**6,100**	**6,100**
Profit (loss) before tax	**1,042**	**(280)**	**(6,584)**	**(478)**	**-**	**-**	**(6,300)**

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

2008	Lloyds TSB statutory £m	HBOS statutory(1) £m	Reclass-ifications £m	BankWest and St Andrews £m	Volatility £m	Removal of: Amort-isation of purchased intangibles and goodwill impairment £m	Insurance gross up £m	Combined businesses £m
Net interest income	7,718	8,171	1,906	(524)	(9)	-	(2,359)	14,903
Other income	(709)	(4,559)	(234)	(148)	2,358	-	10,225	6,933
Total income	7,009	3,612	1,672	(672)	2,349	-	7,866	21,836
Insurance claims	2,859	6,192	(1,570)	-	-	-	(7,962)	(481)
Total income, net of insurance claims	9,868	9,804	102	(672)	2,349	-	(96)	21,355
Operating expenses	(6,100)	(6,880)	-	400	-	258	86	(12,236)
Trading surplus	3,768	2,924	102	(272)	2,349	258	(10)	9,119
Impairment	(3,012)	(12,050)	-	182	-	-	-	(14,880)
	4	(956)	-	-	-	-	-	(952)

and fair value unwind

Share of results of joint ventures and associates								
Non-operating income	-	(743)	(102)	845	-	-	-	-
Profit (loss) before tax	760	(10,825)	-	755	2,349	258	(10)	(6,713)

(1)

Restated for the impact of IFRS 2 (Revised)

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

As at 31 December 2008	Lloyds TSB statutory	HBOS	Reclass-ifications	Lloyds TSB and HBOS share issues	Fair value adjustments	Consolid-ation adjustments	Combined businesses
Assets	£m	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	5,008	2,502	-	-	-	-	7,510
Derivative, trading and other financial assets at fair value through profit or loss	73,948	74,381	67,120	-	(808)	(1,112)	213,529
Loans and receivables:							
Loans and advances to customers	240,344	435,223	15,198	-	(13,512)	(7)	677,246
Loans and advances to banks	38,733	17,645	(849)	16,770	43	(8,823)	63,519
Debt securities	4,416	-	39,053	-	(1,411)	-	42,058
	283,493	452,868	53,402	16,770	(14,880)	(8,830)	782,823
Available-for-sale financial assets	55,707	-	28,048	-	-	(7,614)	76,141
Investment securities	-	133,372	(133,372)	-	-	-	-
Investment property	2,631	3,045	-	-	-	-	5,676
Goodwill and other intangibles	4,346	5,367	(300)	-	5,211	(1,556)	13,068
Tangible fixed assets	2,965	5,400	300	-	(14)	-	8,651
Other assets	7,935	12,982	-	-	(1,484)	(113)	19,320
Total assets	436,033	689,917	15,198	16,770	(11,975)	(19,225)	1,126,718
Liabilities							
Deposits from banks	66,514	97,150	-	-	109	(8,699)	155,074
Customer deposits	170,938	222,251	15,198	-	835	(60)	409,162
Derivative financial liabilities, trading and other financial liabilities at fair value through profit or loss	33,646	57,756	-	-	-	(637)	90,765
Debt securities in issue	75,710	188,448	-	-	(6,247)	(8,246)	249,665
Insurance liabilities	34,062	31,263	6,161	-	282	-	71,768
Liabilities arising from non-participating investment contracts	14,243	39,482	(10,425)	-	13	-	43,313
Other liabilities	12,194	9,797	4,264	-	152	(27)	26,380
Retirement benefit obligations	1,771	152	-	-	832	-	2,755

and fair value unwind

Subordinated liabilities	17,256	30,119	-	4,000	(9,192)	-	42,183
Total liabilities	426,334	676,418	15,198	4,000	(13,216)	(17,669)	1,091,065
Net assets	9,699	13,499	-	12,770	1,241	(1,556)	35,653

2. Banking net interest margin

	2009 **£m**	2008 £m
Banking net interest margin		
Banking net interest income	**11,953**	13,183
Average interest-earning assets, excluding reverse repos	**674,246**	655,989
Banking net interest margin	**1.77%**	2.01%

Banking net interest income

The Group's net interest income includes certain amounts attributable to policyholders, in addition to the interest earnings on shareholders' funds held in the Group's insurance businesses. In addition, the Group's net interest income is significantly affected by the accounting treatment of a number of products predominately in Wholesale division where either the funding costs or the related revenues are recognised within other income. In order to enhance comparability in the Group's banking net interest margin, these items have been excluded in determining net interest income and average interest earning assets.

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

	2009 **£m**	2008 £m
Banking net interest income - combined businesses	**11,953**	13,183
Wholesale - Treasury and Trading and other products	**823**	1,729
Insurance division	**(287)**	(345)
Other non-product income	**237**	336
Group net interest income - combined businesses	12,726	14,903
Fair value unwind	**(2,166)**	-
Insurance gross up	**(1,280)**	2,359
Volatility	**(11)**	9
Pre-acquisition results of HBOS plc	**(243)**	(8,171)
Results of BankWest and St. Andrews	**-**	524
Reclassifications	**-**	(1,906)
Group net interest income - statutory	**9,026**	7,718

3.

Integration costs and benefits

and fair value unwind

Annualised cost savings from synergies and other operating efficiencies of £2 billion are now targeted by the end of 2011, an increase from the previously forecast cost savings in excess of £1.5 billion. The increase arises in the main from further efficiency gains leading to role reductions and, to a lesser extent, property and procurement benefits which are now more certain following the application of the Lloyds TSB approach to HBOS.

Total cost reductions from synergies of £534 million are ahead of the target of £450 million. They are analysed by division in the table below and included in the Group's combined businesses basis loss before tax for the year to 31 December 2009. These benefits relate primarily to reductions in staff numbers and procurement savings.

One-off integration costs of £1,096 million were incurred in the year which have been excluded from the combined businesses basis loss before tax. The integration costs relate to severance, IT and business costs of implementation. The severance provisions are for over 15,000 role reductions announced in the year, of which more than 11,500 relate to 2009, the balance being delivered in 2010. The overwhelming majority of role reductions in 2009 were achieved through re-deployment, natural turnover and voluntary redundancy.

The Group's policy is to use natural turnover and to redeploy people wherever possible to retain their expertise and knowledge within the Group. Where it is necessary for colleagues to leave the company, this is achieved by offering voluntary severance and by making less use of contractors and agency colleagues. Compulsory redundancies are a last resort.

	Savings realised year to 31 Dec 2009
By division	**£m**
Retail	124
Wholesale	86
Wealth and International	28
Insurance	55
Group Operations	221
Central items	20
Total	534
By expenditure type	
People	263
Procurement[1]	126
IT	57
Property	11
Other	77
Total	534

and fair value unwind

(1)
Procurement benefits totalling £174 million were achieved, split £126 million against the ongoing cost base and £48 million within the £1,096 million Integration costs.

3. Integration costs and benefits
(continued)

Over the last year, the Group has mobilised its integration programme, building systems integration plans whilst delivering financial benefits and making good progress towards creating a truly integrated organisation.

For example, the Group has published proposals to harmonise employee terms and conditions across the Group, launched a single Group Intranet to improve communication and ease contact between colleagues and enhanced the IT infrastructure to allow colleagues full connectivity at the Group's buildings. A single consistent framework of risk policies is in place, comprising 71 detailed risk policies applicable across the combined Group.

Savings to date have been driven largely from role reductions resulting from deployment of the new Group organisation design adopting the Lloyds TSB approach. The overwhelming majority of role reductions in 2009 were achieved through re-deployment, natural turnover and voluntary redundancy. Only a small proportion left via compulsory redundancy. In addition the Group has ceased occupancy of 83 properties during 2009, well ahead of the start of year target of 50.

Procurement benefits in 2009 have also been significant at £174 million with approximately £1.5 billion of spend having gone through e-auctions and the Group has in parallel reviewed and consolidated key supplier contracts with over 90 per cent of spend now being through its top 1,000 suppliers.

The Group has progressed well through the IT design and is now focused on building and delivering an integrated technical infrastructure. Preparations for system integration and data migration are in full flight with the scale up of IT equipment to handle increased volumes. Detailed plans are in place, along with testing requirements that are fully commensurate with an integration of this scale.

In the circular to shareholders regarding the acquisition of HBOS, it was stated that annual cost savings of £1.5 billion (run-rate) were expected to be achieved by the end of 2011 at a cost of approximately 140 per cent. The Group is now expecting £2 billion of savings at an implementation cost to synergy ratio of around 155 per cent. The increase in the ratio of implementation costs to annualised cost savings has been driven principally by a recognition of the relative complexity of the HBOS systems and processes.

The synergies achieved in the year of £534 million include a number of one-off savings, which have been excluded from the sustainable run-rate benefits. There has also been an increase in the rate of savings in the year resulting in a sustainable run-rate benefit of £766 million. The target run-rate of £750 million announced in November 2009 has therefore been surpassed, a key factor in determining the increase to the overall run-rate target to £2 billion.

With the programme now well underway and ahead of its financial targets, the Group is confident of delivering the new target, which is analysed below by division.

3. Integration costs and benefits
(continued)

	2009		2011	
	Synergy run-rate £m	**Current view of synergy targets £m**	Allocation of Group Operations target to divisions £m	Current view by market facing division £m
Retail	157	**378**	489	867
Wholesale	157	**282**	250	532
Wealth and International	115	**213**	29	242
Insurance	99	**162**	77	239
Group Operations	209	**907**	(907)	-
Central items	29	**58**	62	120
Total	766	**2,000**	-	2,000

4. Impairment charge

	2009 £m	2008 £m
Retail:		
Secured	**789**	1,295
Unsecured	**3,432**	2,400
	4,221	3,695
Wholesale	**14,031**	7,869
Wealth and International	**4,058**	695
Total impairment losses on loans and advances to customers	**22,310**	12,259
Loans and advances to banks	**(3)**	135
Debt securities classified as loans and receivables	**992**	1,080
Available-for-sale financial assets	**646**	1,400
Other credit risk provisions	**43**	6
Total impairment charge	**23,988**	14,880

Charge for impairment losses on loans and advances to customers as % of average lending:		
Retail:		
Secured	**0.23%**	0.38%
Unsecured	**9.94%**	6.65%
	1.11%	0.97%
Wholesale	**5.92%**	3.32%
Wealth and International	**6.04%**	1.05%
Total	**3.25%**	1.81%

5.

Loans and advances to customers

	2009 £m	2008 £m

Retail:

Agriculture, forestry and fishing	**5,229**	4,823
Energy and water supply	**3,198**	3,488
Manufacturing	**15,520**	19,493
Construction	**13,507**	14,472
Transport, distribution and hotels	**33,747**	37,328
Postal and communications	**2,282**	2,018
Property companies	**88,255**	87,125
Financial, business and other services	**69,241**	88,508
Personal - mortgages	**367,831**	378,287
- other	**43,177**	49,172
Lease financing and hire purchase	**18,017**	20,196
	660,004	704,910
Allowance for impairment losses on loans and advances	**(25,988)**	(14,152)
Fair value adjustments	**(7,047)**	(13,512)
Total loans and advances to customers	**626,969**	677,246

6. Credit market exposures

The table below summarises the Group's exposure to asset-backed securities.

	Loans and receivables £m	Available-**for-sale** £m	**Fair value through profit** or loss £m	**Net exposure 2009** £m	Net exposure 2008 £m
Mortgage-backed securities					
US residential mortgage-backed securities	**4,826**	**-**	**-**	**4,826**	7,376
Non-US residential mortgage-backed securities	**6,078**	**3,577**	**-**	**9,655**	12,452
Commercial mortgage-backed securities	**2,561**	**1,176**	**-**	**3,737**	4,642
	13,465	**4,753**	**-**	**18,218**	24,470
Collateralised debt obligations					
Corporate	**86**	**-**	**-**	**86**	1,411
Commercial real estate	**509**	**-**	**-**	**509**	636

Other	**151**	**45**	**-**	**196**	271
Collateralised loan obligations	**4,006**	**1,739**	**-**	**5,745**	5,774
	4,752	**1,784**	**-**	**6,536**	8,092
Personal sector					
Auto loans	**1,006**	**724**	**-**	**1,730**	2,416
Credit cards	**2,938**	**782**	**-**	**3,720**	4,620
Personal loans	**769**	**230**	**-**	**999**	1,096
	4,713	**1,736**	**-**	**6,449**	8,132
Federal family education loan progress student loans	**5,938**	**3,306**	**-**	**9,244**	9,950
Other asset-backed securities	**400**	**783**	**-**	**1,183**	1,726
Total uncovered asset-backed securities	**29,268**	**12,362**	**-**	**41,630**	52,370
Negative basis (1)	**-**	**59**	**1,174**	**1,233**	3,313
	29,268	**12,421**	**1,174**	**42,863**	55,683
Direct	**19,386**	**7,039**	**1,174**	**27,599**	32,226
Conduits	**9,882**	**5,382**	**-**	**15,264**	23,457
Total Wholesale asset-backed securities	**29,268**	**12,421**	**1,174**	**42,863**	55,683
Other asset-backed securities	**1,191**	**-**	**2,236**	**3,427**	1,433
Total asset-backed securities	**30,459**	**12,421**	**3,410**	**46,290**	57,116

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

6. Credit market exposures (continued)

The table below sets out the Wholesale division's net exposure to US RMBS by vintage.

Pre-2005	**2005**	**2006**	**2007**	**Net exposure** 2009	Net exposure 2008

Asset class	**£m**	**£m**	**£m**	**£m**	**£m**	£m
Prime	**274**	**282**	**196**	**107**	**859**	1,895
Alt-A	**125**	**806**	**1,525**	**1,511**	**3,967**	5,404
Sub-prime	-	**-**	**-**	**-**	**-**	77
Total	**399**	**1,088**	**1,721**	**1,618**	**4,826**	7,376

Exposures to monolines

During the year all direct exposure to sub-investment grade monolines on CDS contracts was written down to zero, leaving limited exposure to monoline insurers as set out below.

Monoline	**Credit default swaps** Notional £m	**Credit default swaps** Net exposure [1] £m	**Wrapped loans and receivables** Notional £m	**Wrapped loans and receivables** Net exposure [2] £m	**Wrapped bonds** Notional £m	**Wrapped bonds** Net exposure [2] £m
Investment grade	1,030	75	401	260	156	101
Sub-investment grade	-	-	-	-	234	8
	1,030	**75**	**401**	**260**	**390**	**109**

(1) The exposure to monolines arising from negative basis trades is calculated as the mark to market of the CDS protection purchased from the monoline after credit valuation adjustments.

(2) The exposure to monolines on wrapped loans and receivables and bonds is the internal assessment of amounts that will be recovered on interest and principal shortfalls.

In addition, the Group has £2,703 million of monoline wrapped bonds and £791 million of monoline liquidity commitments on which the Group currently places no reliance on the guarantor.

Structured Investment Vehicles

The Group has no residual exposure to Structured Investment Vehicles' capital notes.

6. Credit market exposures (continued)

Credit ratings

An analysis of external credit ratings as at 31 December 2009 of the Wholesale division ABS portfolio by asset class is provided below. These ratings are based on the lowest of Moody's, Standard & Poor's and Fitch.

Asset class	Net exposure	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	Below B

	£m	£m	£m	£m	£m	£m	£m	£m
Mortgage-backed securities								
US RMBS								
Prime	**859**	**435**	**245**	**42**	**16**	**22**	**31**	**68**
Alt-A	**3,967**	**2,819**	**729**	**286**	**102**	**27**	**2**	**2**
Sub prime	-	-	-	-	-	-	-	-
	4,826	**3,254**	**974**	**328**	**118**	**49**	**33**	**70**
Non-US RMBS	**9,655**	**8,742**	**862**	**48**	**3**	-	-	-
CMBS	**3,737**	**1,067**	**1,325**	**476**	**755**	**58**	-	**56**
	18,218	**13,063**	**3,161**	**852**	**876**	**107**	**33**	**126**
Collateralised debt obligations								
Corporate	**86**	**24**	**45**	**6**	**-**	**11**	**-**	**-**
Commercial real estate	**509**	**99**	**158**	**159**	**33**	**45**	**15**	**-**
Other	**196**	-	**130**	-	-	-	**10**	**56**
CLO	**5,745**	**2,200**	**2,206**	**963**	**111**	**239**	**18**	**8**
	6,536	**2,323**	**2,539**	**1,128**	**144**	**295**	**43**	**64**
Personal sector								
Auto loans	**1,730**	**1,430**	**24**	**74**	**10**	**192**	-	-
Credit cards	**3,720**	**3,606**	**114**	**-**	**-**	**-**	-	-
Personal loans	**999**	**789**	**56**	**154**	-	-	-	-
	6,449	**5,825**	**194**	**228**	**10**	**192**	**-**	**-**
FFELP Student loans	**9,244**	**9,152**	**92**	-	-	-	-	-
Other asset-backed securities	**1,183**	**297**	**1**	**492**	**246**	**131**	**16**	**-**
Negative basis (1)								

Exposures to monolines

Monolines	**970**	**376**	**379**	**215**	-	-	-	-
Banks	**263**	**50**	**9**	-	-	-	-	204
Total as at 31 Dec 2009	**1,233**	**426**	**388**	**215**	**-**	**-**	**-**	**204**
	42,863	**31,086**	**6,375**	**2,915**	**1,276**	**725**	**92**	**394**
Total as at 31 Dec 2008	55,683	48,890	2,339	1,503	1,393	278	111	1,169

(1)
The external credit rating is based on the bond ignoring the benefit of the CDS.

7.
Volatility

The Group's statutory profit before tax is significantly 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 2009, the Group's statutory profit before tax included positive insurance and policyholder interests volatility of £478 million compared to negative volatility of £2,349 million in 2008 primarily reflecting the more favourable financial markets in 2009.

Volatility comprises the following:

	2009	2008
	£m	£m
Insurance volatility	**237**	(1,425)
Policyholder interests volatility	**298**	(924)
Total volatility	**535**	(2,349)
Group hedge costs	**(57)**	-
Total	**478**	(2,349)

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.

7.
Volatility
(continued)

The liabilities in respect of the Group's annuity business are matched by a portfolio of fixed interest securities, which includes a large proportion of corporate bonds. In accordance with the approach adopted in 2008, the value of in-force business for the annuity business has been calculated after taking into account an estimate of the market premium for illiquidity in respect of these corporate bond holdings. The illiquidity premium is estimated to

have

reduced to 75 basis points as at 31 December 2009 (31 December 2008: 154 basis points) which has offset the gains on assets backing the annuity liabilities reducing the volatility of the results. Overall, the positive volatility in 2009 in the Insurance division of £237 million, reflected a partial recovery in financial markets. During 2009, equities have recovered by 22 per cent and corporate bond spreads have narrowed, offset by a reduction in gilts reflecting an increase in yields and a reduction in property values of 6.6 per cent. This contrasts with 2008 where a 33 per cent reduction in equities was the main driver of the £1,425 million negative volatility in 2008.

Hedge costs
To protect against further deterioration in equity market conditions, and the consequent negative impact on the value of business in force on the Group balance sheet, the Group purchased put option contracts. The charge booked for 2009 was £57 million. These options expired on 15 January 2010.

Policyholder interests volatility

Exposures to monolines

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

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 year ended 31 December 2009, the statutory profit before tax in both the Insurance and Wealth and International divisions included credits to other income which relate to the policyholder interests volatility charge of £298 million (2008: policyholder interests volatility charge of £924 million). The market recovery in 2009 increased policyholder tax liabilities and led to a policyholder tax charge of £346 million during the year in the Group's tax charge. This was partly offset by a credit of £48 million relating to differences in the expected levels of policyholder tax provisions and charges. This compares to 2008 when substantial policyholder tax losses were generated as a result of the fall in property, bond and equity values.

8.
Life, Pensions and Investments funds under management

The life insurance companies' funds within the Insurance division are predominantly managed by Scottish Widows Investment Partnership which is part of the Wealth and International division.

	2009	2008
	£bn	£bn
Opening funds under management	**113.7**	135.6
UK business		
Premiums	**12.2**	17.1
Claims	**(6.4)**	(7.6)
Surrenders	**(6.8)**	(11.3)
Transfers related to the sale of Insight	**(3.3)**	-
Net outflow of business	**(4.3)**	(1.8)
Investment return, expenses and commission	**12.3**	(18.6)
Net movement	**8.0**	(20.4)

European business		
Net movement	**0.6**	(0.7)
Dividends and capital repatriation	**(0.2)**	(0.8)
Closing funds under management	**122.1**	113.7
Managed by SWIP	**102.4**	101.0
Managed by third parties	**19.7**	12.7
Closing funds under management	**122.1**	113.7

9. Number of employees (full-time equivalent)

	2009	2008
Retail	**53,384**	59,939
Wholesale	**18,699**	21,472
Wealth and International	**10,503**	10,805
Insurance	**10,569**	11,625
Group Operations	**18,874**	19,980
Central items	**2,367**	2,389
	114,396	126,210
Agency staff (full-time equivalent)	**(7,252)**	(5,384)
Total number of employees (full-time equivalent)	**107,144**	120,826

The analysis of staff numbers as at 31 December 2008 has been revised to reflect the organisational changes.

RISK MANAGEMENT

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

RISK MANAGEMENT APPROACH

The Group's approach to risk is founded on robust corporate governance practices and a strong risk management culture which guides the way all employees approach their work, the way they behave and the decisions they make. The board takes the lead by establishing the 'tone at the top' and approving professional standards and corporate values for itself, senior management and other colleagues. The board ensures that senior management implements strategic policies and procedures designed to promote professional behaviour and integrity. The board also ensures that senior management implements risk policies and risk appetites that either limit, or where appropriate, prohibit activities, relationships, and situations, that could diminish the quality of corporate governance. All colleagues including the group chief executive are assessed against a balanced scorecard that explicitly addresses their risk performance.

This board level engagement, coupled with the direct involvement of senior management in group-wide risk issues at group executive committee level, ensures that issues are escalated on a timely basis and appropriate remediation plans are put in place. The interaction of the executive and non-executive governance structures relies upon a culture of transparency and openness that is encouraged by senior management. Key decisions are always taken by more than one person.

The Group uses an enterprise-wide risk management framework for the identification, assessment, measurement and management of risk. It seeks to maximise value for shareholders over time by aligning risk management with the corporate strategy, assessing the impact of emerging risks from legislation, new technologies or the market, and developing risk tolerances and mitigating strategies. The framework seeks to: strengthen the Group's ability to identify and assess risks, aggregate group-wide risks and define the corporate risk appetite, develop solutions for reducing or transferring risk, and where appropriate, exploit risks to gain competitive advantage, thereby seeking to increase shareholder value.

The Group has a conservative business model embodied by a risk culture founded on prudence and accountability, where everyone understands that they are accountable for the risks they take and that the needs of customers are paramount. The focus has been and remains on building and sustaining long-term relationships with customers, through good and bad economic times.

The Group follows a through the economic cycle, relationship based, business model with robust risk management processes, appropriate appetites and experienced staff in place. These robust policies and procedures define chosen target market and risk acceptance criteria. These have been, and will continue to be, tightened and fine tuned as appropriate and include the use of early warning indicators to help anticipate future areas of concern and allow us to take early and proactive mitigating actions.

PRINCIPAL RISKS AND UNCERTAINTIES

Economy
2009 has been an extremely challenging year in terms of economic developments. UK gross domestic product (GDP) growth was towards the bottom end of the Group's, and the market's, range of expectations. In response, official interest rates have fallen to their lowest level since the Bank of England was founded. Interest rates elsewhere have also fallen to extremely low levels. However, perhaps partly in response to such low interest rates, other economic indicators have not turned out to be quite as bad as the Group had feared.

Companies entered this downturn in better shape generally than the last recession, and seem to have taken timely action to cut investment, stocks and working hours. Helped by very low interest rates, the aggregate financial position of the corporate sector has remained relatively stable, undoubtedly helping to limit failure rates and probably also helping to limit the rise in unemployment - the biggest single cause of job losses in most recessions is business failure. However, whilst there have been some recent positive economic indicators, there is potential for rising unemployment and further corporate insolvencies to put pressure on impairments in the short term. The Group expects to see the volume of impairments from traditional trading/manufacturing businesses increase in 2010, as the full impact of these economic conditions filters into business insolvencies and asset values. This is a factor of the lag effect as the economy passes through the recession.

House prices have also held up better than almost all forecasts - including those of Lloyds Banking Group - with the Halifax house price index ending the year higher than twelve months earlier and other indices showing a similar picture. Having fallen sharply in late 2008 and early 2009, commercial property capital values have stabilised recently, primarily prime properties. The consensus forecast is for modest growth in capital values this year and next, even as rental values decline further. In the case of Wholesale, cash flows and property price movements are a major driver of both retail and wholesale impairments. This is a reason why the Group believes that, given our current economic outlook, the impairment charge in 2010 will be significantly lower than the 2009 charge.

Compared to other economies, the UK recession has been in the middle of the pack in terms of severity. A total peak to trough fall in UK GDP of 6.1 per cent compares unfavourably with falls of 3.8 per cent in the USA and 4.6 per cent in Spain, but more favourably with 6.7 per cent in Germany, 8.4 per cent in Japan and 10.8 per cent in Ireland. Ireland, along with Greece, Portugal and Spain has experienced widening spreads on sovereign debt, and a sharp pick-up in the costs of insuring against government default, as markets have become concerned about sharply higher government deficits, strong growth in public debt and even the possibility of exit from the eurozone. The Irish government has so far shown a credible policy response and has already taken action to cut public-sector wages and restore competitiveness. Nevertheless, we expect Irish GDP growth to remain negative, year-on-year, in 2010 before a more sustained recovery begins in 2011. Spain is also likely to lag behind a global recovery which we assume will result in 3.2 per cent global GDP growth in 2010.

The Group's central scenario is for modest UK recovery in 2010 - our projection of 1.8 per cent growth in GDP is close to the consensus. But alternative scenarios remain possible. The Bank of England's most likely outcome, as published in the February 2010 Inflation Report, is for a somewhat faster recovery during 2010. However, the risks around that most likely outcome are skewed towards the downside.

PRINCIPAL RISKS AND UNCERTAINTIES
(continued)

It is possible that the economy will dip again if hit by some new shock - and what might start as a temporary setback to recovery could have longer lasting effects if it damages consumer, business or financial market confidence. In addition to higher impairments as a result of more client defaults, a key risk in Wholesale is the impact this may have on tenant default and refinance risk in the Group's property and property related investment portfolios. Furthermore, uncertainties remain about how the economy will respond as and when the Bank of England begins to reverse quantitative easing and restore interest rates to more normal levels, and the Government begins to take action to reduce its large fiscal deficit. The fiscal position also implies some uncertainty about the UK's future sovereign rating, and downgrades elsewhere in Europe might increase speculation about the UK's rating. A downgrade would raise borrowing costs, not only for the government but also for other UK borrowers, and would be likely therefore to slow economic recovery.

Regulatory risk

The industry is currently subject to a wide range of international and UK consultations on proposals to change the regulatory requirements. For example the Basel Committee on Banking Supervision has issued proposals with respect to capital and liquidity requirements for banks ('Strengthening the resilience of the banking sector' and 'International framework for liquidity risk measurement, standards and monitoring') and draft proposals have also been issued by the EU for new capital requirements for insurers ('Solvency II'). In the UK we have seen the Turner review and more recently proposals have been issued for governance, recovery and resolution ('Living Wills') arrangements and also, potentially conduct of business requirements, which could have significant implications for past business as well as future product offerings for customers. There is a high level of uncertainty both as to the financial outcome in terms of specific requirements and the speed of implementation in the UK and internationally.

The Group is currently assessing the impacts of these regulatory proposals, and will participate in the consultation and calibration processes to be undertaken by the various regulatory bodies during 2010. The Group currently meets and exceeds its regulatory capital and liquidity requirements and expects to continue to do so. However, the FSA could impose more stringent capital and liquidity requirements, and/or introduce new ratios and/or change the manner in which it applies existing requirements to recapitalise banks, including those within the Group. Any one or combination of these events could result in the Group being forced to raise further capital or to divest assets.

The Group has made good preparations for the FSA's new liquidity regime (ILAS) and is ready to meet the reporting implications later in the year.

Lloyds Banking Group's policy is to maintain high levels of compliance with regulatory requirements and it will organise its business to maintain this level of compliance as the requirements become clearer, being mindful of maintaining an appropriate balance between risk and reward.

State aid

The Group is subject to European State Aid obligations as a result of the aid it received from HM Treasury. In November 2009 the College of Commissioners approved the Group's restructuring plan, which is designed to address any competition distortions arising from the benefits of State Aid. The Group agreed with HM Treasury in the deed relating to its withdrawal from GAPS that it will comply with the terms of the European Commission's decision. This has placed a number of requirements on the Group including the disposal of certain portions of its business over the course of the next four years, including in particular the disposal of some parts of its retail banking business. This will require the Group to work closely with EU and UK authorities to demonstrate that it is complying with the terms of the European Commission's decision.

PRINCIPAL RISKS AND UNCERTAINTIES
(continued)

HM Treasury currently holds approximately 41.3 per cent of the Group's ordinary share capital. There is a risk that this shareholding could in future be used to seek to exercise influence over the affairs or strategic business plans of the Group, particularly if other Government priorities or HM Treasury's interests as a major shareholder in other financial institutions do not align with their interests purely as a shareholder in the Group.

United Kingdom Financial Investments (UKFI) has been appointed manager of HM Treasury's shareholding and the framework document between UKFI and HM Treasury states that UKFI will manage the UK financial institutions in which HM Treasury holds an interest 'on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined therein)'. This document also makes it clear that such institutions will continue to be separate economic units with independent powers of decision and 'will continue to have their own independent boards and management teams, determining their own strategies and commercial policies including business plans and budgets'.

In addition, the Group has made a number of undertakings to HM Treasury associated with the State Aid it has received

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including the provision of additional lending to certain mortgage and business sectors, and other matters relating for instance to corporate governance and staff remuneration. These commitments could limit the operational flexibility of the Group or lead HM Treasury to seek to influence the strategy of the Group in other ways.

Credit risk

Credit risk approach

The Group has largely adopted the heritage Lloyds TSB credit risk approach, including governance structure, sanctioning processes and risk appetite controls and framework. Integrated, prudent through the cycle credit policies and procedures have mostly all been established and implemented across the Group, supported by robust early warning indicators and triggers.

Following a prioritised appointment process, an integrated credit risk management structure is in place throughout the Group, using the most experienced and skilled resources from both heritages. Substantial work has been undertaken to analyse portfolios and where necessary the Group has taken actions to manage effectively its exposure through the economic downturn. These actions have included revised credit criteria for key products and a withdrawal from those business sectors that are outside of the Group's risk appetite.

The Group has formed a group level Credit Risk Assurance function with experienced credit professionals from both heritages. Together with Divisional Risk senior management, this team has carried out an independent risk-based review of the high risk wholesale and retail books. Nearly £150 billion of high risk heritage wholesale assets, primarily HBOS commercial real estate and corporate exposures, have been reviewed by the team. This has required a detailed file by file review of the original credit application, subsequent management papers and an understanding of the supporting collateral. In addition, portfolio level analysis and investigation, together with statistically robust sampling of accounts, have been carried out for over £300 billion of retail assets. These comprehensive reviews have greatly enhanced the Group's knowledge and understanding of the legacy portfolios and have enabled the Group to assess and manage these exposures confidently and effectively.

To support corporate customers that encounter difficulties during the current economic downturn the Group has continued to expand its dedicated Business Support Unit (BSU) model. Teams have been strengthened in both Wholesale and Wealth and International to deal with the rise in work loads experienced during the year as the recessionary conditions took hold both in the UK and overseas. In Wholesale three teams have been created to cover Corporate Real Estate, Corporate and Commercial, and Specialist Finance customers experiencing difficulties. In Wealth and International a team has been created in Ireland and Australia. Under this model, relationship management passes early and fully to

BSU; because the BSU specialists receive the customers at an earlier stage in the process they have more time to develop effective solutions. The strategy is to work alongside management teams and key stakeholders to turnaround businesses in distress and re-establish these as viable entities. Where a turnaround is not feasible, exposure is minimised through a combination of appropriate asset sales, restructuring and work out strategies.

To support UK Retail customers who are encountering financial difficulties the Group has launched a cross-channel support programme. Lloyds TSB branches and telephony units have at least one trained Financial Health Specialist providing customers with budgeting and money management advice. In the Group's Halifax and Bank of Scotland businesses, customers have a dedicated telephone support line with trained specialists able to guide them through any financial difficulties. Support is also available for all customers online, and via a specially developed support brochure. For those customers requiring more intensive help, assistance is provided through dedicated support units where tailored repayment programmes can be agreed. Customers are actively supported and referred to free money advice agencies where they have multiple credit facilities that require restructuring.

Credit risk approach

(continued)

Within Collections and Recoveries the sharing of best practice and alignment of policies across the Group has helped to drive more effective customer outcomes and achieve operational efficiencies. We have strengthened resources in Collections and Recoveries to help customers in distress by offering advice and access to a wider range of options such as short-term repayment plans or the government backed Homeowners' Mortgage Support and Mortgage Rescue schemes. A core element of our relationship management approach is to contact customers showing signs of financial distress, discussing with them their circumstances and offering solutions to prevent their accounts falling into arrears. This year, nearly a quarter of a million customers have been contacted who were not yet in arrears.

Credit risk - Group

Key highlights

- As a result of the significant impairments taken in the first half of 2009 following in-depth reviews of the Group's high risk portfolios and a more favourable macroeconomic environment in the second half of 2009, the Group's total impairment charge levels have reduced in the second half of the year.
- Whilst the path of the economic recovery remains uncertain, the Group continues to expect the 2010 charge to be significantly lower than the total 2009 charge.
- The Group has largely adopted the heritage Lloyds TSB's credit risk approach and is implementing prudent, through-the cycle credit policies and procedures across the Group.
- The Group has expanded its Business Support Unit (BSU) model and strengthened the resources within Collections and Recoveries to support the more timely engagement with customers experiencing difficulties and drive more effective customer outcomes.

The Group's total impairment losses increased by £9,108 million to £23,988 million in 2009. Impairment losses for loans and advances as a percentage of average gross loans and advances to customers increased to 3.25 per cent from 1.81 per cent in 2008. This was principally due to the material deterioration in UK economic conditions in 2009. The rapid economic and asset value declines, together with aggressive lending polices in the heritage HBOS business, caused wholesale impairment losses to increase substantially during 2009. This was especially so in the HBOS Corporate Real Estate portfolio which has been particularly vulnerable to the deterioration in asset values, as well as the HBOS (UK and US) Corporate portfolios.

The Group's gross loans and advances to customers, before impairment provisions and fair value adjustments, decreased by £44.9 billion to £660.0 billion. The reduction in gross advances was primarily driven by the alignment of heritage risk appetites in Retail, a reduction in wholesale lending in Corporate Markets and a reduction in Wealth and International before allowing for a transfer of £7 billion of advances from the Wholesale Division to Wealth and International during the year in respect of the European loan portfolio.

Total impaired loans increased by £27,529 million to £58,833 million at 31 December 2009 and as a percentage of closing loans and advances to customers increased to 8.9 per cent from 4.4 per cent at 31 December 2008, driven by the deterioration in the economic environment, and in particular by declines in commercial real estate values and higher unemployment. The Group's coverage ratio (impairment provisions as a percentage of impaired loans) has decreased to 44.2 per cent from 45.2 per cent in 2008. Whilst the ratio has increased within Wholesale and Wealth and International, the overall fall is due to the write-off of unsecured loans and advances within Retail that had been provided against in earlier years, as reported at the half year. The Group believes it has adequate coverage.

Credit risk
- Group

(continued)

The Group remains cautious about a number of downside risks, including a renewed macro-economic deterioration in the UK and Ireland. However, based on its latest economic assumptions, the Group expects a significantly lower impairment charge in 2010 compared to 2009.

As at 31 December 2009	**Advances** £m	**Impaired loans** £m	**Impaired loans as a % of closing advances** %	Impairment provisions (1) £m	**Impairment provisions as a % of impaired loans** %
Retail	**378,005**	**11,015**	**2.9**	**3,806**	**34.6**
Wholesale	**210,934**	**35,114**	**16.6**	**17,179**	**48.9**
Wealth and International	**69,402**	**12,704**	**18.3**	**5,003**	**39.4**
Hedging and other items	**1,663**	**-**	**-**	**-**	**-**
	660,004	**58,833**	**8.9**	**25,988**	**44.2**
Impairment provisions	**(25,988)**				
Fair value adjustments	**(7,047)**				
Total Group	**626,969**				
As at 31 December 2008					
Retail	386,007	10,106	2.6	4,842	47.9

Exposures to monolines

Wholesale	247,138	18,470	7.5	8,263	44.7
Wealth and International	67,481	2,728	4.0	1,047	38.4
Hedging and other items	4,284	-	-	-	-
	704,910	31,304	4.4	14,152	45.2
Impairment provisions	(14,152)				
Fair value adjustments	(13,512)				
Total Group	677,246				

(1) Impairment provisions include collective unimpaired provisions.

Credit risk
- Retail

Key highlights

- Impairment losses have increased by 14 per cent to £4,227 million particularly reflecting the impact of increases in unemployment during 2009 on the unsecured charge, partly offset by a lower secured impairment charge as the housing market stabilised.
- New lending quality has remained strong, with lower arrears evident.
- Average loan-to-value on new mortgage lending has reduced to 59.3 per cent, compared to 63.1 per cent during 2008.
- Management actions taken, coupled with more favourable recent economic trends, have reduced overall volumes of customers entering Collections in the second half of the year.
- The path of economic recovery in the UK remains uncertain; however, based on current trends, Retail expects impairment losses in 2010 to be lower than 2009.

Retail impairment losses increased by £532 million to £4,227 million in 2009, driven primarily by deteriorating economic conditions in the latter part of 2008 and the first half of 2009. Impairment losses were lower in the second half of 2009, compared to the first half, driven by lower secured impairment losses. The improvement in secured impairment losses reflected increases in UK house prices, slowing unemployment growth, better affordability with lower interest rates and management actions. Impairment losses for loans and advances as a percentage of average loans and advances to customers, increased to 1.11 per cent from 0.97 per cent in 2008.

Retail's gross loans and advances to customers have reduced by £8.0 billion to £378.0 billion, as a result of management actions to align heritage risk appetites with a focus on lending to lower risk segments, such as unsecured franchise customers, and the write-off of £2.1 billion of unsecured loans and advances which had been provided against in earlier years, as reported at the half year.

Total impaired loans increased by £909 million to £11,015 million at 31 December 2009 and as a percentage of closing advances to customers, increased to 2.9 per cent from 2.6 per cent at 31 December 2008. This is lower than the £11,394 million reported at 30 June 2009, as there has been a gradual improvement in the second half of the year in secured loans, with unsecured lending remaining stable.

Exposures to monolines

The Group is cautious about a number of potential downside risks, including lagged effects of high unemployment, a potential for recent house price increases to reverse, the challenges to affordability if interest rates were to rise ahead of real wage growth and other potential pressures on future affordability. However, based on its latest economic assumptions, the Group's expectation is for recent trends to continue and for Retail to report a lower impairment charge in 2010 compared to 2009.

Credit risk
- Retail
(continued)

As at 31 December 2009	**Advances**	**Impaired loans**	**Impaired loans as a % of closing advances**	**Impairment** provisions (1)	**Impairment provisions as a % of impaired loans**
	£m	**£m**	**%**	**£m**	**%**
Secured	**345,900**	**7,196**	**2.1**	**1,693**	**23.5**
Unsecured(2)	**32,105**	**3,819**	**11.9**	**2,113**	**55.3**
Total gross lending	**378,005**	**11,015**	**2.9**	**3,806**	**34.6**
Impairment provisions	**(3,806)**				
Fair value adjustments	**(3,141)**				
Total Retail lending	**371,058**				

As at 31 December 2008	Advances	Impaired loans	Impaired loans as a % of closing advances	Impairment provisions(1)	Impairment provisions as a % of impaired loans
	£m	£m	%	£m	%
Secured	349,646	4,756	1.4	1,403	29.5
Unsecured(2)	36,361	5,350	14.7	3,439	64.3
Total gross lending	386,007	10,106	2.6	4,842	47.9
Impairment provisions	(4,842)				
Fair value adjustments	(4,088)				
Total Retail lending	377,077				

(1)
Impairment provisions include collective unimpaired provisions.
(2)
The reduction in unsecured advances and impairment provisions reflects the write-off of £2.1 billion of unsecured loans and advances to customers which had been provided against in prior years.

	As at	As at

Exposures to monolines

	31 Dec 2009 £m	31 Dec 2008 £m
Secured		
Mainstream	**270,069**	274,237
Buy to let	**44,236**	41,364
Specialist	**31,595**	34,045
	345,900	349,646
Unsecured		
Credit cards	**12,301**	13,802
Personal loans	**16,940**	18,102
Bank accounts	**2,629**	2,788
Others, including joint ventures[1]	**235**	1,669
	32,105	36,361
Total Retail gross lending	**378,005**	386,007

(1)
Following the Group's acquisition of the shares it did not already own in the joint venture with AA, unsecured lending by that entity is now reported
in 'Personal Loans' and 'Credit Cards' headings, previously these balances were included in 'Others'.

Credit risk
- Retail
(continued)

Secured
The UK mortgage market for both house purchase and re-mortgaging slowed considerably in 2009, with gross market lending falling to £143 billion from £254 billion in 2008. The re-mortgage market is the main contributor to this fall, as reductions in base rate have brought the interest rate on standard variable mortgages to below new business rates across the industry, thereby reducing the incentive for borrowers to re-mortgage.

Gross new mortgage lending by Retail in 2009 was £35 billion compared to £78 billion for 2008, representing a market share of gross new lending of 24 per cent compared with 31 per cent in 2008. Overall, mortgage balances outstanding at 31 December 2009 were £345.9 billion, a reduction of £3.7 billion in the year.

In March 2009, the Group committed to increasing its planned gross lending to homebuyers by £3 billion in the following 12 months. The lending provided under this commitment continues to adhere to the Group's risk appetite. The Group's risk appetite is consistent with the criteria that had proved to be a prudent and successful approach for Lloyds TSB.

Secured impairment losses were £789 million in 2009, a reduction of £506 million compared with 2008. The main drivers of the reduction are internal activities (risk and collections policies) and better than anticipated external factors (interest rates, house prices and unemployment). The combination of these factors has resulted in a reduction in impaired loans in the second half of the year.
As a percentage of average gross loans and advances to customers, secured impairment losses decreased to 0.23 per cent in 2009 from 0.38 per cent in 2008.

Management actions taken have resulted in new lending quality improving to pre-recessionary levels, with fewer customers now going into arrears. Specialist lending is now closed to new business and this book is in run-off.

Although impaired loans in the year increased to £7,196 million, Retail has seen a steady reduction in the second half of the year from £7,612 million at 30 June 2009. Impaired secured loans, as a percentage of closing advances, increased to 2.1 per cent at 31 December 2009 from 1.4 per cent in 2008.

Credit risk - Retail (continued)

The percentage of mortgage cases greater than three months in arrears (excluding possessions) increased to 2.3 per cent at 31 December 2009 compared to 1.8 per cent at 31 December 2008.
Based on the most recent published figures by the Council of Mortgage Lenders, the Group is performing marginally better than the industry average.

Arrears

Greater than three months in arrears (excluding possessions)	Number of cases		Total mortgage accounts %		Value of debt[1]		Total mortgage balances %	
	31 Dec 2009 Cases	31 Dec 2008 Cases	**31 Dec 2009 %**	31 Dec 2008 %	**31 Dec 2009 £m**	31 Dec 2008 £m	**31 Dec 2009 %**	31 Dec 2008 %
Mainstream	**57,837**	46,543	**2.1**	1.5	**6,407**	4,796	**2.4**	1.7
Buy to let (BTL)	**7,557**	6,950	**1.9**	2.0	**1,159**	1,053	**2.6**	2.5
Specialist	**13,848**	12,634	**6.6**	5.6	**2,498**	2,342	**7.9**	6.9
Total	**79,242**	66,127	**2.3**	1.8	**10,064**	8,191	**2.9**	2.3

(1) Value of debt represents total book value of mortgages in arrears but not in possession.

Provisions held against secured assets appropriately reflect the risk of further losses from events that have already occurred. This includes adequate allowance for losses yet to emerge on accounts currently on repayment plans or benefiting from the very low interest rate environment.

The possessions stock has fallen by 32 per cent in 2009, from 4,011 to 2,720 properties. Currently, average proceeds from the sale of repossessed properties are in excess of average valuations assumed in Retail's provisioning models
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The average loan-to-value ratio (LTV) for new mortgages and further advances written in 2009 was 59.3 per cent compared to 63.1 per cent in 2008. The average indexed loan-to-value ratio on the mortgage portfolio was 54.8 per cent compared to 54.9 per cent in 2008 and 13.0 per cent of the mortgage portfolio had an indexed loan-to-value ratio in excess of 100 per cent (£44.8 billion), compared to 16.2 per cent (£56.8 billion) in 2008.

Credit risk
- Retail
(continued)

The tables below show LTVs across the principal mortgage portfolios.

As at 31 December 2009	**Mainstream**	**Buy to let**	**Specialist[1]**	**Total**
	%	**%**	**%**	**%**
Less than 60%	**34.4**	**12.0**	**14.3**	**29.7**
60% to 70%	**11.9**	**11.3**	**9.7**	**11.6**
70% to 80%	**15.2**	**20.2**	**17.0**	**16.0**
80% to 90%	**14.3**	**19.1**	**21.5**	**15.6**
90% to 100%	**12.2**	**21.4**	**20.3**	**14.1**
Greater than 100%	**12.0**	**16.0**	**17.2**	**13.0**
Total	**100.0**	**100.0**	**100.0**	**100.0**
Average loan-to-value:				
Stock of residential mortgages	**51.0**	**75.2**	**72.3**	**54.8**
New residential lending	**58.3**	**65.6**	**73.7**	**59.3**
Impaired mortgages	**71.1**	**91.5**	**85.6**	**76.5**

[1] Specialist lending is now closed to new business and is in run-off.

As at 31 December 2008	Mainstream	Buy to let	Specialist	Total
	%	%	%	%
Less than 60%	34.3	11.1	14.8	29.6
60% to 70%	10.7	9.6	9.4	10.5
70% to 80%	12.7	15.6	15.7	13.3
80% to 90%	13.6	20.3	21.4	15.2
90% to 100%	13.5	22.1	20.8	15.2
Greater than 100%	15.2	21.3	17.9	16.2
Total	100.0	100.0	100.0	100.0
Average loan-to-value:				
Stock of residential mortgages	52.2	77.0	71.7	54.9
New residential lending	60.7	73.1	73.1	63.1
Impaired mortgages	67.3	89.9	85.6	74.1

Credit risk
- Retail
(continued)

Exposures to monolines

Unsecured

Consumer Banking has aligned risk appetite across the business to focus on lending to its existing customers. Personal loan balances outstanding at 31 December 2009 were £16.9 billion (31 December 2008: £18.1 billion), the reduction reflected lower demand, a tightening of lending criteria and the write-off of unsecured loans and advances which had been provided against in earlier years, as reported at the half year.

In credit cards, Retail's combined brands are market leaders in terms of new credit card issuance. Credit card balances outstanding at 31 December 2009 were £12.3 billion (31 December 2008: £13.8 billion). In addition, the Group was the leading UK debit card issuer in 2009.

T
he impairment charge for unsecured lending was £3,438 million in 2009, an increase of £1,038 million on 2008 which reflects the higher unemployment levels seen in the year. Consistent with the Group's statements at the half year, Retail's impairment losses on unsecured lending were higher in the second half of the year, largely driven by standardisation of the treatment for concessionary repayment plans; if this charge was excluded, impairment losses were stable.

In the second half of 2009 there were signs of improved underlying performance in all portfolios; management actions reduced the delinquency rates on new business. If current trends continue, Retail believes impairment losses in 2010 will be lower than in 2009.

Total impaired unsecured loans were £3.8
 billion
(31 December 2008: £5.4 billion) and represented 11.9 per cent of closing advances compared to 14.7 per cent at 31 December 2008. Provisions as a percentage of impaired loans decreased to 55.3 per cent (31 December 2008: 64.3 per cent). The reduction in both the level of impaired loans and the impairment provisions coverage reflected the write-off of £2.1 billion of unsecured loans which had been provided against in the prior years, as reported at the half year.

Personal loans
:
Impaired personal loans decreased to 10.5 per cent of closing advances (3
1 December
 2008: 11.6 per cent) and provisions, as a percentage of closing advances, decreased to 5.9 per cent (3
1 December
 2008: 7.0 per cent).

Credit cards
:
Impaired credit cards advances were 13.6 per cent of closing advances (3
1 December
2008: 20.2 per cent) and provisions, as a percentage of closing advances, decreased to 7.1 per cent (3
1 December
2008: 13.6 per cent).

Bank accounts
:

Impaired loans decreased to 13.6 per cent of closing advances (3
1 December
2008: 17.0 per cent) and provisions, as a percentage of closing advances, decreased to 8.9 per cent (3
1 December
2008: 10.6 per cent).

Credit risk
- Wholesale

Key highlights

·
Established robust credit risk control framework and risk appetite largely based on Lloyds TSB's approach, and rolled out across Wholesale. Divisional Risk continue to undertake robust and continuous oversight and challenge to the business.

·
Significant resources deployed into the Business Support Units focused on key asset classes.

·
As a result of significant impairments taken in the first half of 2009,
notably in HBOS Corporate Real Estate and HBOS (UK and US) Corporate portfolios, the Group expects this to represent the peak of total impairments given the Group's economic assumptions. However, the Group expects the volume of underlying impairments from traditional trading and manufacturing businesses to increase in 2010, as the full impact of economic conditions filters into business insolvencies and asset values. This is a factor of a typical lag effect as the economy passes through the recession. However, the effects of this negative trend should be significantly less than the benefit of lower absolute impairments from the HBOS Corporate Real Estate and HBOS (UK and US) Corporate portfolios.

·
Volume of individual cases passing into Business Support Units continued to rise in second half of 2009.

·
The Group remains cautious about the extent of corporate recovery in 2010.

Wholesale Division impairment losses increased by £5,289 million to £15,683 million in 2009. Impairment losses for loans and advances as a percentage of average loans and advances to customers increased to 5.92 per cent in 2009 from 3.32 per cent in 2008. Higher levels of failures, notably in HBOS Corporate Real Estate and real estate related transactions, and the HBOS (UK and US) Corporate portfolio, drove a significant increase in impairments. However, impairment losses reduced significantly in the second half of 2009, amounting to £5,945 million, compared to £9,738 million in the first half, a reduction of £3,793 million, or 39 per cent.

Wholesale's gross loans and advances to customers have decreased by £36.2 billion to £210.9 billion. Since the date of acquisition, all business originated in Wholesale has been evaluated in accordance with the risk appetite and credit control criteria that had proved to be a prudent and successful approach for Lloyds TSB. Early assessment of HBOS portfolios identified those areas where there was close alignment with the Lloyds TSB heritage, those which could continue to be supported once the more restrictive appetite and policy were aligned, and those where it was clear that there would be limited appetite to lend. As agreed with the UK government, the Group's lending commitment is also subject to, and considered in the light of, the Group's risk appetite and credit control criteria.

Total impaired loans increased by £16,644 million to £35,114 million at 31 December 2009. Impaired loans as a percentage of closing advances was 16.6 per cent as at 31 December 2009 compared with

7.5 per cent as at 31 December 2008, with impairment provisions as a percentage of impaired loans increasing to 48.9 per cent as at 31 December 2009 from 44.7 per cent as at 31 December 2008. Detailed reviews of vulnerable portfolios have largely been completed and, where appropriate, remedial risk mitigating actions are underway. The HBOS heritage portfolios are now considered to be appropriately impaired in accordance with the Group's methodology, against the Group's economic assumptions, and this is reflected in the impairment charge for the year and the first half in particular. The position has stabilised during the second half with a lower rate of impairment compared to the first half.

The Lloyds TSB approach to credit risk management, with a focus on ensuring its risk appetite and credit policies reflect a prudent through the cycle approach to lending, impairment assessment and review is being embedded across the enlarged Wholesale division and remains a key focus in 2010.

Credit risk
- Wholesale
(continued)

As at 31 December 2009	**Advances £m**	**Impaired loans £m**	**Impaired loans as a % of closing advances %**	Impairment provisions (1) **£m**	**Impairment provisions as a % of impaired loans %**
Corporate Markets					
Corporate	**67,293**	**7,930**	**11.8**	**3,933**	**49.6**
Commercial	**26,551**	**2,597**	**9.8**	**972**	**37.4**
Real Estate	**55,490**	**18,016**	**32.5**	**8,791**	**48.8**
Specialist Finance	**16,088**	**2,956**	**18.4**	**1,621**	**54.8**
Wholesale Markets	**31,286**	**1,646**	**5.3**	**631**	**38.3**
Total Corporate Markets	**196,708**	**33,145**	**16.8**	**15,948**	**48.1**
Treasury and Trading	**1,394**	**-**	**-**	**-**	**-**
Asset Finance	**12,832**	**1,969**	**15.3**	**1,231**	**62.5**
Total Wholesale	**210,934**	**35,114**	**16.6**	**17,179**	**48.9**
Reverse repos	**1,108**				
Impairment provisions	**(17,179)**				
Fair value adjustments	**(3,055)**				
Total loans and advances	**191,808**				

As at 31 December 2008	Advances £m	Impaired loans £m	Impaired loans as a % of closing advances %	Impairment provisions(1) £m	Impairment provisions as a % of impaired loans %
Corporate Markets (2)					
Corporate	81,482	2,615	3.2	1,736	66.4
Commercial	26,785	1,759	6.6	597	33.9

Real Estate	59,481	9,536	16.0	3,318	34.8
Specialist Finance	26,816	2,049	7.6	1,271	62.0
Wholesale Markets	35,652	1,114	3.1	475	42.6
Total Corporate Markets	230,216	17,073	7.4	7,397	43.3
Treasury and Trading	2,775	-	-	-	-
Asset Finance	14,147	1,397	9.9	866	62.0
Total Wholesale	247,138	18,470	7.5	8,263	44.7
Reverse repos	3,230				
Impairment provisions	(8,263)				
Fair value adjustments	(7,543)				
Total loans and advances	234,562				

(1)

Impairment provisions include collective unimpaired provisions
.

(2)
As part of the process of allocating assets to the new management structure, the legacy HBOS portfolios have been resegmented and the 2008 comparative numbers are presented on an organisational basis consistent with 2009.

Credit risk
- Wholesale
(continued)

Corporate

The Corporate (UK and US) portfolios felt the impact of the adverse economic environment in the first half of 2009 but this has stabilised during the second half with a lower rate of impairments raised against the portfolio and a slower rate of new cases being transferred into Business Support Units. A higher volume of impaired cases is expected in 2010 as the lag from the UK recession bites. This impact is expected to be biased toward the mid size franchise, of which the HBOS heritage portfolio is characterised by high levels of obligor concentration to riskier counterparties many with a property related component, thereby impacting the level of the impairment charge in 2009. The significant level of impairments taken in 2009 in the HBOS corporate business is not expected to be repeated.

As part of its funding, liquidity and general hedging requirements Lloyds Banking Group maintains relationships with many major financial institutions throughout the world. Credit quality in general is improving in the sector, helped significantly by the support mechanisms established by Governments, Central Banks and regulators. This is reflected in the firmer trend in market prices now quoted for bank debt. Some economies continue to experience difficulties, either through low growth or high borrowing levels, and banking sectors in these countries remain under strain.

The position in North America has stabilised with a lower rate of impairments in the second half of 2009. The Group retains some material single obligor concentrations on weaker credits. Concentrations remain in gaming, residential real estate and to some poorer sub prime non-bank financial institutions loan originators. Although the portfolio is appropriately impaired, a weakening in some of the Group's gaming exposures could well result in the need for further impairment provisions during 2010.

Commercial

Impairment has been marginally higher than originally expected this year, reflecting the harsher economic conditions that the Group's customers have experienced. The Group continues to refine its risk management and forecasting tools to reflect the economic environment and further increase control, monitoring and support of customers. In addition, the roll out of a combined Lloyds TSB and Bank of Scotland credit policy and risk strategy will benefit the business going forward, and the Group's prudent through the cycle lending policies will ensure that asset quality remains appropriately robust.

Portfolio metrics and stress testing analysis suggest continued material impairments through the short to medium term, as expected at this stage of the economic cycle. Over time, impairment losses as a percentage of advances are expected to trend towards more normalised levels reflective of the historic performance of the Lloyds TSB heritage portfolio. However, in line with past experience, the impairment improvement is expected to show some lag behind the upturn in the economy.

Credit risk
- Wholesale
(continued)

Corporate Real Estate

The Corporate Real Estate portfolio has endured a significant level of stress as a consequence of the unprecedented scale and pace of deterioration in the property sector coupled with the previous aggressive lending appetite in the heritage HBOS business. Whilst the Group remains cautious, the current outlook for the property sector is now a little more positive with higher levels of equity being raised, yields stabilising and negative rental growth abating. However, a sustained recovery is not predicted until 2011. Against this backdrop, Corporate Real Estate is focusing its attention on improving the risk profile of the existing portfolio and applying conservative and prudent lending policies in relation to new business. Clearly the management of the distressed portfolio is key not only to mitigating loss but also for Lloyds Banking Group as a significant player within the property sector to ensure that the strategies adopted do not adversely impact on a market that remains fragile. The Group's Business Support Unit is making great progress in the achievement of these balanced objectives with a substantial number of restructurings undertaken over the last six months.

On the property investment side there are signs of recovery in capital values but this is most evident at the prime end of the commercial market. The key concern remains the potential for an increasing level of tenant defaults against a backdrop of already depressed capital values and a continuing lack of liquidity in the market. Sustainability of cash flow has been key to the relative resilience seen in the investment market to date but a significant rise in tenant defaults would impact adversely on debt service capability and could lead to increased impairments beyond those forecast, based on the Group's current economic assumptions.

Wholesale has invested heavily in implementing the required infrastructure to deal with the stress which has been experienced in the portfolio to date and is satisfied that impairment levels are prudent, with the impairment charge for the second half reducing from the peak evidenced in the first half. Refinancing risk is an emerging issue with significant maturities due in the next few years. Against the Group's economic assumptions, 2010 is expected to continue to be difficult. However the Group has made significant strides during 2009 in putting in place robust and prudent lending policies and processes with the expectation that, in tandem with a market which is evidencing signs of recovery, Wholesale will see an improving risk profile across the portfolio together with continued reduction in impairments.

Wholesale Markets

Unsecured

Wholesale Markets encompasses the securitisation conduits (Cancara, Grampian and Landale), a portfolio of Structured Credit Investments and Structured Corporate Finance (which covers shipping, rail, aviation, corporate asset finance and infrastructure finance). Global shipping markets, especially the dry bulk and container sectors, experienced considerable pressure during 2009, leading to higher impairment levels; while the Group expects continued sector pressure in 2010, it has forecast a lower rate of new problem cases.

2009 has seen a significant reduction in the size of the Treasury Assets portfolio, both in terms of notional exposure and Risk Weighted Assets. In addition, the potential for volatility within the portfolio has been significantly reduced. As financial market conditions have improved, write-downs of investment securities have eased. Although both Lloyds TSB and HBOS heritage portfolios contain US residential mortgage-backed securities, which are exposed to a greater risk of further impairment, it is believed that previous write-downs and acquisition fair value adjustments for HBOS Treasury Assets remain adequate to cover the losses the Group expects to incur on these portfolios.

Credit risk
- Wholesale
(continued)

Specialist Finance
Specialised Finance comprises Acquisition Finance and Corporate Equity.
Acquisition Finance
- The Acquisition Finance (leveraged) portfolio has been impacted significantly by the economic environment, with a relatively high proportion of deals being restructured, and higher impairment levels seen than in same period in 2008. The rate of new problem loans abated in the second half of 2009.

Corporate Equity
- The risk capital (assets representing 'Equity Risk' including ordinary equity, preference shares and institutional stock) portfolio comprises the Lloyds TSB heritage Lloyds Development Capital (LDC) business, a small Project Finance business, and the HBOS heritage Integrated Finance Investments, Joint Ventures and Fund Investments businesses. Excluding LDC and Project Finance, the remaining Risk Capital businesses are not considered as continuing businesses to Lloyds Banking Group and as a result are being managed for value. As a result, excluding LDC and Project Finance, there will be no 'new' investments in the portfolios and they will reduce over time as existing investments are exited.

During the first half of 2009, as a result of significant market volatility, the value of the portfolio reduced materially. In the second half of the year, the main share indices have evidenced an upward movement and this has largely offset continued pressure on earnings across the investment portfolio, together contributing to a relatively flat position across the total portfolio. While some positive signs are evident, value recovery going forward continues to be treated with caution.

Treasury and Trading
Treasury and Trading acts as the link between the wholesale markets and the Group's balance sheet management activities and provides pricing and risk management solutions to both internal and external clients. The majority of Treasury and Trading's funding and risk management activity is transacted with investment grade counterparties and much of it is on a secured basis, such as Repo. Derivative transactions with wholesale counterparties are typically collateralised under CSAs.

Asset Finance

Unsecured

The credit quality profile across the heritage Lloyds TSB Asset Finance (AF) non-retail portfolios has remained broadly stable over the last 12 months. In line with the wider economic difficulties and rise in corporate failures, there has been a rise in the number of cases requiring Business Support management although the level of defaults is no greater than in 2008. However, there has been an increased level of default in the heritage HBOS AF non-retail portfolios with the need for higher impairment charges during 2009, particularly in the daily / flexi rental end of the Fleet Operator sector and marine sector.

The AF retail portfolio has come under significant stress in 2009 in line with the broader difficult economic conditions. The rise in the impairments and expected loss has been driven by a combination of increased unemployment, falling house prices and fall in motor values, although these have stabilised in 2009 following a large fall in 2008. Retail second lien secured lending has been impacted by a combination of stressed factors including the fall in house prices, since the loans were provided reducing the equity in the property, the restriction in the retail credit market limiting the ability to refinance and an increase in the number of defaults due to the stressed economy resulting in larger than anticipated increases in impairments.

For both the AF retail and non-retail portfolios the outlook for 2010 remains cautious although the Group expects impairment levels to reduce compared to 2009.

Credit risk
- Wealth and International

Key highlights

- Creation of credit risk teams and the establishment of Business Support Units in Ireland and Australia supported by divisional Business Support Unit sanctioning in the UK.
- Impairment charges considered to have peaked in Wealth and International in 2009 given the Group's economic assumptions although uncertainty remains over Ireland and the impact of the continued economic decline on Bank of Scotland (Ireland) impairment levels.
- Tightening of Risk Appetite following divisional and Business Unit reviews and independent Group Credit Risk Assurance reviews of all material heritage HBOS portfolios.

Wealth and International's impairment losses have increased by £3,347 million to £4,078 million in 2009. The result was primarily driven by a severe deterioration in economic conditions in the Irish economy and to a lesser extent the Australian economy. Impairment losses for loans and advances as a percentage of average gross loans and advances to customers increased to 6.04 per cent from 1.05 per cent in 2008. Included within the total impairment charge was £2,949 million related to Ireland, £849 million related to Australia with a further £129 million arising in Wholesale Europe. The impairment charge for Wealth and International is expected to have peaked in 2009, although the Group continues to monitor economic conditions in the eurozone and Ireland in particular.

Wealth and International's gross loans and advances to customers increased by £1.9 billion to £69.4 billion following the transfer of a £7 billion European loan portfolio from Wholesale division offset by repayments in most portfolios.

Total impaired loans increased by £9,976 million to £12,704 million at 31 December 2009. As a percentage of gross loans and advances to customers impaired loans increased to 18.3 per cent from 4.0 per cent at

31 December 2008. This increase was driven by deteriorating economic conditions, particularly in Ireland, as well as the impact of the downturn on property loans and advances, in both Ireland and Australia, and concentrations in other sectors most impacted by the downturn, such as printing, media and transport.

The division has established Credit Risk Policies which have been rolled out across all of the businesses with local policies being fully aligned. Reviews of risk appetite were undertaken throughout 2009 which have re-emphasised management's commitment to maximising value from existing lending portfolios, seeking to reduce sector concentrations and move to 'Trusted Advisor' status thereby maximising income from selected clients.

In order to manage impaired loans effectively, Business Support Units have been established in Ireland and Australia with divisional oversight provided by the Business Support Unit Sanctioning area. Reviews of Collections and Recoveries capability across the retail businesses have been undertaken to optimise processes and enhance capability.

Credit risk
- Wealth and International
(continued)

The tables below highlight the International credit exposure in Ireland and Australia which represent approximately 60 per cent of the division's lending assets. As at December 2009
37 per cent
of customer advances in Wealth and International division relate to personal lending, including mortgages. Loans to individuals are by their nature well diversified amongst a wide range of borrowers. Wholesale assets comprise 63
per cent
of assets with a good spread of risk outwith the property sector. Wealth and International are seeking to reduce property concentrations to rebalance the lending portfolio, with Commercial Real Estate lending currently comprising 31 per cent of the total portfolio.

As at 31 December 2009	**Advances £m**	**Impaired loans £m**	**Impaired loans as a % of closing advances %**	Impairment provisions (1) **£m**	**Impairment provisions as a % of impaired loans %**
Wealth	**9,523**	**281**	**3.0**	**100**	**35.6**
International					
Ireland	**29,104**	**9,712**	**33.4**	**3,601**	**37.1**
Australia	**14,057**	**2,030**	**14.4**	**966**	**47.6**
Other	**16,718**	**681**	**4.1**	**336**	**49.3**
	59,879	**12,423**	**20.7**	**4,903**	**39.5**
Wealth and International	**69,402**	**12,704**	**18.3**	**5,003**	**39.4**
Impairment provisions	**(5,003)**				
Fair value adjustments	**(851)**				
Total	**63,548**				

Unsecured

As at 31 December 2008	Advances £m	Impaired loans £m	Impaired loans as a % of closing advances %	Impairment provisions[1] £m	Impairment provisions as a % of impaired loans %
Wealth	10,485	205	2.0	70	34.1
International					
Ireland	31,359	1,775	5.7	682	38.4
Australia	13,055	685	5.2	256	37.4
Other	12,582	63	0.5	39	61.9
	56,996	2,523	4.4	977	38.7
	67,481	2,728	4.0	1,047	38.4
Impairment provisions	(1,047)				
Fair value adjustments	(1,881)				
Total	64,553				

(1) Impairment provisions include collective unimpaired provisions.

Credit risk
- Wealth and International
(continued)

Analysis of Gross Loans and Advances by Asset Class 31 December 2009	**Ireland £bn**	**Australia £bn**	**Other £bn**	**Total £bn**
Commercial Real Estate	**11.7**	**6.3**	**3.6**	**21.6**
Corporate	**9.1**	**6.1**	**6.8**	**22.0**
Sub total	**20.8**	**12.4**	**10.4**	**43.6**
Mortgages	**7.8**	**-**	**13.3**	**21.1**
Other retail	**0.5**	**1.7**	**2.5**	**4.7**
Sub total	**8.3**	**1.7**	**15.8**	**25.8**
Total loans and advances	**29.1**	**14.1**	**26.2**	**69.4**

Wealth

Impairment losses within Wealth have increased to £71 million for 2009 (June 2009 £26 million) primarily reflecting difficult economic conditions in Spain as well as the impact of the economic downturn on the UK Private Banking and 'Expatriates' businesses.

Ireland

The total impairment charge for Ireland is £2,949 million, of which £2,929 million relates to loans and advances and the remaining £20 million is in respect of equity. Impairment losses for loans and advances in Ireland represent 9.9 per cent of average gross loans and advances to customers, which has increased from 3.4 per cent at the half year. The most significant contributor to impairment losses in Ireland is the Commercial Retail Estate portfolios which make up 61 per cent of losses, representing 15.3 per cent of average Commercial Real Estate advances. As a percentage of Commercial Real Estate assets that have an impairment allowance, total provision coverage amounts to 47 per cent. With limited new business being written and very low levels of roll-off driven by a lack of liquidity in the commercial property market, overall exposures in local currency remain almost static. The severe economic downturn has significantly influenced performance with commercial property prices falling approximately 55 per cent from their peak, house prices falling approximately 31 per cent from their peak and unemployment levels currently at 12.5 per cent.

Australia

Impairment losses in Australia amount to £849 million, representing 6.2 per cent of average advances as compared with 3.1 per cent as at June 2009. The Australian economy has fared better than many others and did not formally enter recession. However, high sector concentrations in Property and in other sectors hardest hit by the economic downturn (Printing, Transport and Media) have resulted in increased impairment losses in 2009.

Liquidity and funding

Liquidity and funding approach

The Group has adopted the heritage Lloyds TSB liquidity and funding approach which involves reduced risk appetite and increasing the diversity of funding sources, supported by extensive analysis of funding needs and strong governance.

Short-term liquidity is considered from both a business as usual and stress perspective, whilst long-term funding plans are drawn up to manage the Group's strategic balance sheet structure. The Group's funding and liquidity position is underpinned by its significant retail deposit base and supported by resilient funding from the wholesale markets, with a reduced dependence on short-term funding.

In keeping with the Group's strategy of right sizing the balance sheet, total funding requirement has reduced by £73 billion. During the year the Group has reduced its dependency on the repo market whilst also reducing its wholesale funding requirements. Additionally, there has been a managed reduction in certain types of non-bank deposits, in particular certain aggressively priced corporate deposits which were sourced from HBOS customers during the crisis in the second half of 2008. Actions taken to right-size the balance sheet have reduced the portion of the Group's funding that is derived from wholesale markets.

Group balance sheet

	As at 31 Dec 2009 £bn	As at 31 Dec 2008[1] £bn	***2009 change %***

Assets			
Loans and advances to customers	**627.0**	677.2	***(7.4)***
Wholesale assets [(2)]	**153.6**	189.2	***(18.8)***
Banking assets	**780.6**	866.4	***(9.9)***
Total assets	**1,027.3**	1,126.7	***(8.8)***
Liabilities			
Non-bank deposits [(3)]	**371.2**	381.0	***(2.6)***
Wholesale funding	**325.5**	342.9	***(5.1)***
Repo	**63.1**	116.9	***(46.0)***
Total equity	**44.1**	35.7	***23.5***
Total funding	**803.9**	876.5	***(8.3)***
Total liabilities and shareholders equity	**1,027.3**	1,126.7	***(8.8)***

(1)
Adjusted to reflect the completion of the assessment of fair value of the identifiable net assets of the HBOS Group.
(2)
Wholesale assets comprise balances arising from banking businesses and includes cash and balances at central banks, loans and advances to banks, debt securities and available-for-sale financial assets.
(3)
Non-bank deposits comprise balances arising from banking businesses and consists of customer deposits.

Liquidity and funding
(continued)

During 2009, the Group has seen a stabilisation in the customer deposit base, in marked contrast to the volatility observed by parts of the heritage HBOS businesses in the second half of 2008. The customer loan to deposit ratio improved slightly to 169 per cent compared with 177 per cent at the previous year end. The challenge facing the Group over the medium term is to continue to access the term funding markets, and for the Group to continue to reduce its utilisation of government sponsored funding schemes. The combination of a clear focus on right-sizing the balance sheet, developing the Group's retail liability base, and strategically accessing the capital markets will enable the Group to continue to strengthen its funding base.

The global upheaval in the financial markets that occurred during 2008 has abated during the latter part of 2009. The steps taken in 2008 by HM Treasury, through the introduction of the Government Credit Guarantee (CGS) for senior funding and other facilities including the Special Liquidity Scheme (SLS) have together continued to provide assurance of liquidity support to the banking markets. Notwithstanding the improvement in market liquidity during 2009, the Group continues to be reliant upon these facilities in order to maintain its wholesale funding position. At 31 December 2009, the Group's overall support from government and central bank sponsored funding facilities totalled £157 billion, with a significant portion maturing over the course of the next two years. The Group's balance sheet reduction plans will avoid the necessity to refinance much of this funding.

The Group has been able to take advantage of the improved market sentiment, by extending the duration of its money market funding, and by successfully accessing the term debt markets in unguaranteed format and through the issuance of Permanent RMBS. The reduction in the volume of money market funding has contributed to an improvement in the Group's term funding ratio (wholesale funding with a remaining life of over one year) which has improved to

50
per cent at 31 December 2009 from 44 per cent at the previous year end.

The key dependencies on successfully funding the Group's balance sheet include the continued functioning of the money and capital markets at their current levels; successful right-sizing of the Group's balance sheet; the continuation of HM Treasury facilities in accordance with the terms agreed; limited further deterioration in the UK's and the Group's credit rating and no significant or sudden withdrawal of deposits resulting in increased reliance on money markets or UK Government support schemes. A return to the extreme market conditions of 2008 would place a strain on the Group's ability to meet its financial commitments.

	As at 31 Dec 2009 £bn	**As at 31 Dec 2009 %**	As at 31 Dec 2008 £bn	As at 31 Dec 2008 %
Bank deposits	**48.6**	**7.0**	54.9	7.6
Debt securities in issue:				
Certificates of deposit	**50.9**	**7.3**	77.5	10.7
Medium term notes	**89.7**	**12.9**	63.5	8.8
Covered bonds	**28.1**	**4.0**	29.1	4.0
Commercial paper	**35.0**	**5.0**	28.9	4.0
Securitisation	**35.8**	**5.1**	43.6	6.0
	239.5	**34.3**	242.6	33.5
Subordinated debt	**37.4**	**5.4**	45.4	6.3
Total wholesale (excluding non-bank deposits)	**325.5**	**46.7**	342.9	47.4
Customer deposits	**371.2**	**53.3**	381.0	52.6
Total Group funding (1)	**696.7**	**100.0**	723.9	100.0

(1)
Excluding repos and total equity.

Liquidity and funding
(continued)

Term funding
Lloyds Banking Group has continued to extend the term of its wholesale funding. The following significant capital markets transactions were undertaken in 2009:

- £13.5 billion rights issue
- €5 billion public senior unguaranteed debt
- £4 billion public RMBS
- US$2 billion tier 1 capital securities

Lloyds Banking Group will continue to access the term capital markets, and has already successfully executed benchmark transactions in January 2010:

- US$5 billion equivalent of public senior term funding
- £2.5 billion equivalent of public RMBS

The Group had limited access to the term capital markets for large periods of 2009 due to highly market sensitive on-going negotiations around the Government Asset Protection Scheme and market recapitalisation.

Total wholesale funding is analysed by residual maturity as follows:

	As at 31 Dec 2009 £bn	**As at 31 Dec 2009 %**	As at 31 Dec 2008 £bn	As at 31 Dec 2008 %
Less than one year	**161.8**	**49.7**	192.3	56.1
One to two years	**48.8**	**15.0**	29.8	8.7
Two to five years	**68.7**	**21.1**	62.2	18.1
More than five years	**46.2**	**14.2**	58.6	17.1
Total wholesale funding	**325.5**	**100.0**	342.9	100.0

During the period the Group has changed the definition of wholesale to align with that used by other international market participants to include interbank deposits, debt securities in issue and subordinated debt within this category.

Liquidity and funding
(continued)

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

Table of eligible collateral

	As at 31 Dec 2009 £bn	As at 31 Dec 2008 £bn
Primary liquidity(1)	**88.4**	46.2
Secondary liquidity(2)	**62.4**	58.3
Total	**150.8**	104.5

(1)

Australia

Primary liquidity is defined as FSA eligible liquid assets (UK Gilts, US Treasuries, Euro AAA government debt; unencumbered cash balances held at Central banks).

(2)
Secondary liquidity comprises a diversified pool of highly rated unencumbered collateral (including retained issuance).

The Group is aware that the regulatory liquidity landscape is subject to potential change and is actively participating in the industry wide consultation process.

The following tables reconcile figures reported at page 92.

	As at 31 December 2009			
	Included in funding analysis (above) £bn	**Repos £bn**	**Fair value and other accounting methods £bn**	**Balance Sheet £bn**
Bank deposits	**48.6**	**27.6**	**6.3**	**82.5**
Debt securities in issue	**239.5**	**-**	**(6.0)**	**233.5**
Subordinated debt	**37.4**	**-**	**(2.7)**	**34.7**
Total wholesale funding	**325.5**	**27.6**		
Customer deposits	**371.2**	**35.5**		**406.7**
Total	**696.7**	**63.1**		

	As at 31 December 2008			
	Included in funding analysis (above) £bn	Repos £bn	Fair value and other accounting methods £bn	Combined businesses balance sheet £bn
Bank deposits	54.9	95.8	4.4	155.1
Debt securities in issue	242.6	3.0	4.1	249.7
Subordinated debt	45.4	-	(3.2)	42.2
Total wholesale funding	342.9	98.8		
Customer deposits	381.0	18.1	10.1	409.2
Total	723.9	116.9		

People

The delivery of Lloyds Banking Group's objectives is underpinned by the ability to attract, retain and develop the best talent in the industry. The challenges to the people agenda have never been greater with increased regulatory and public interest in remuneration practices, the effects of the Government shareholding and the impacts of integration. Lloyds Banking Group welcomes the regulation of remuneration provided there is an international consensus and will comply with the FSA code. The Group has successfully managed the initial stages of integration, working at pace to establish control by defining and implementing the new organisational structures and continues to proactively manage the relationship with colleagues during this period of change. The Group has policies, procedures and governance arrangements in place to ensure the effective management of people risk as the Group integrates and grow its business.

The Group has published proposals to harmonise employee terms and conditions across the Group and is consulting with the various representative unions. The Group actively manages its relationships with unions, but is aware of the danger of industrial action, business disruption and reputational impact arising from union behaviour and communications. People risk is closely monitored as a key risk indicator, as well as being subject to oversight by the Board.

Customer treatment

Customer treatment and how the Group manages its customer relationships affects all aspects of Lloyds Banking Group's operations and is closely aligned with achievement of Lloyds Banking Group's strategic aim - to create deep long lasting relationships with its customers. There is currently a high level of scrutiny regarding the treatment of customers by financial institutions from the press, politicians and regulatory bodies.

The OFT's investigation and legal test case in respect of unarranged overdraft charges on personal current accounts concluded in 2009, for further details see note 27 (Legal and regulatory matters). The OFT is however continuing to discuss its concerns in relation to the personal current account market with the banks, consumer groups and other organisations under the auspices of its Market Study into personal current accounts. In October 2009, the OFT published voluntary initiatives agreed with the industry and consumer groups to improve transparency of the costs and benefits of personal current accounts and improvements to the switching process. The OFT aims to report on progress in respect of further changes it believes are required to make the market work in the best interest of bank customers by the end of March 2010.

The Group regularly reviews its product range to ensure that it meets regulatory requirements and is competitive in the market place. Treating Customers Fairly remains the key principle underpinning the FSA's consumer protection objective. An additional challenge for Lloyds Banking Group is ensuring the fair treatment of customers during integration of the two heritage businesses. As a result the customer relationship management risks posed by integration are carefully considered through the integration governance process in place. If Lloyds Banking Group is unable to demonstrate the fair treatment of its customers there is the risk of increased complaints from customers, the potential for regulatory action (which could include reviews of past business and/or the payment of fines and compensation) and adverse media coverage (leading to reputational damage in the marketplace). The Group has policies, procedures and governance arrangements in place to facilitate the fair treatment of customers.

Integration

The integration of the two legacy organisations presents one of the largest integration challenges that has been seen in the UK financial services industry. There is a risk that the Group may fail to realise the business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from the acquisition of HBOS plc by Lloyds TSB Group plc, or may incur unanticipated costs and losses associated as a result. As a consequence, the Group results may suffer as a result of operational, financial management and other integration risks. The risk of failure to deliver synergy benefits or to meet publicly stated targets could potentially result in a loss of shareholder or market confidence with negative perceptions of the Group's integration strategy. As the Group goes through the integration process there is a danger of losing key staff potentially impacting upon integration plans.

The Group has created an Integration Executive Board, chaired by the Group Operations Director, to oversee the integration process. The Group is now one year into the integration programme and has a fully developed and functioning governance framework to manage these risks, with clear understanding of the dependencies and phased deliverables through to 2012. The programme is ahead of plan.

STATUTORY INFORMATION

CONSOLIDATED INCOME STATEMENT

	Note	**2009** £ million	2008 (1) £ million
Interest and similar income		**28,238**	17,569
Interest and similar expense		**(19,212)**	(9,851)
Net interest income		**9,026**	7,718
Fee and commission income		**4,254**	3,231
Fee and commission expense		**(1,517)**	(694)
Net fee and commission income		**2,737**	2,537
Net trading income		**19,098**	(9,186)
Insurance premium income		**8,946**	5,412
Other operating income		**5,490**	528
Other income	4	**36,271**	(709)
Total income		**45,297**	7,009
Insurance claims		**(22,019)**	2,859
Total income, net		**23,278**	9,868

of insurance claims			
Government Asset Protection Scheme fee	28	**(2,500)**	-
Other operating expenses		**(13,484)**	(6,100)
Total operating expenses	5	**(15,984)**	(6,100)
Trading surplus		**7,294**	3,768
Impairment	6	**(16,673)**	(3,012)
Share of results of joint ventures and associates		**(752)**	4
Gain on acquisition	7	**11,173**	-
Profit before tax		**1,042**	760
Taxation	8	**1,911**	38
Profit for the year		**2,953**	798
Profit attributable to minority interests		**126**	26
Profit attributable to equity shareholders		**2,827**	772
Profit for the year		**2,953**	798
Basic earnings per share	9	**7.5p**	6.7p
Diluted earnings per share	9	**7.5p**	6.6p
Dividend per share for the year		**-**	11.4p
Dividend for the year		**-**	£648m

(1) Restated for IFRS2 (revised). See note 1 on page 104.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2009 £ million	2008 (1) £ million
Profit for the year	**2,953**	798
Other comprehensive income:		
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax:		
Change in fair value	**1,936**	(2,031)
Transferred to income statement in respect of disposals	**(74)**	(19)
Transferred from the income statement in respect of impairment	**453**	102
Other transfers to income statement	**(67)**	(66)
	2,248	(2,014)
Movement in cash flow hedging reserve, net of tax:		
Effective portion of changes in fair value taken to other comprehensive income	**(382)**	(24)

Net gains transferred to the income statement	**92**	12
	(290)	(12)
Currency translation differences, net of tax	**(219)**	(362)
Other comprehensive income for the year, net of tax	**1,739**	(2,388)
Total comprehensive income for the year	**4,692**	(1,590)
Total comprehensive income attributable to minority interests	**107**	54
Total comprehensive income attributable to equity shareholders	**4,585**	(1,644)
Total comprehensive income for the year	**4,692**	(1,590)

(1) Restated for IFRS 2 (Revised). See note 1 on page 104.

CONSOLIDATED BALANCE SHEET

	Note	**As at 31 December 2009**	As at 31 December 2008

Assets		£ million	£ million
Cash and balances at central banks		**38,994**	5,008
Items in course of collection from banks		**1,579**	946
Trading and other financial assets at fair value through profit or loss	10	**150,011**	45,064
Derivative financial instruments	11	**49,928**	28,884
Loans and receivables:			
Loans and advances to customers	12	**626,969**	240,344
Loans and advances to banks		**35,361**	38,733
Debt securities	16	**32,652**	4,416
		694,982	283,493
Available-for-sale financial assets	17	**46,602**	55,707
Investment properties		**4,757**	2,631
Investments in joint ventures and associates		**479**	55
Goodwill		**2,016**	2,256
Value of in-force business		**6,685**	1,893
Other intangible assets		**4,087**	197
Tangible fixed assets		**9,224**	2,965
Current tax recoverable		**680**	300
Deferred tax assets		**5,006**	833
Other assets		**12,225**	5,801
Total assets		**1,027,255**	436,033

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Note	**As at 31 December 2009 £ million**	As at 31 December 2008 £ million
Deposits from banks		**82,452**	66,514
Customer deposits	18	**406,741**	170,938
Items in course of transmission to banks		**1,037**	508
Trading and other financial liabilities at fair value through profit or loss		**28,271**	6,754
Derivative financial instruments	11	**40,485**	26,892
Notes in circulation		**981**	-
Debt securities in issue	19	**233,502**	75,710
Liabilities arising from insurance contracts and participating investment contracts		**76,179**	33,792
Liabilities arising from non-participating investment contracts		**46,348**	14,243
Unallocated surplus within insurance businesses		**1,082**	270
Other liabilities		**29,320**	11,456
Retirement benefit obligations	20	**780**	1,771
Current tax liabilities		**51**	-
Deferred tax liabilities		**209**	-
Other provisions		**983**	230

Subordinated liabilities	21	**34,727**	17,256
Total liabilities		**983,148**	426,334
Equity			
Share capital	22	**10,472**	1,513
Share premium account	23	**14,472**	2,096
Other reserves	23	**7,086**	(2,476)
Retained profits	23	**11,248**	8,260
Shareholders' equity		**43,278**	9,393
Minority interests		**829**	306
Total equity		**44,107**	9,699
Total equity and liabilities		**1,027,255**	436,033

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders					
	Share capital and premium £ million	Other reserves £ million	Retained profits[1] £ million	Total[1] £ million	Minority interests £ million	Total[1] £ million
Balance at 1 January 2008	2,730	(60)	9,471	12,141	284	12,425
Total comprehensive income	-	(2,416)	772	(1,644)	54	(1,590)
Dividends	-	-	(2,042)	(2,042)	(29)	(2,071)
Private placement of ordinary shares	760	-	-	760	-	760
Purchase/sale of treasury shares	-	-	16	16	-	16
Employee share option schemes:						
Value of employee services	-	-	43	43	-	43
Proceeds from shares issued	119	-	-	119	-	119
Repayment of capital to minority shareholders	-	-	-	-	(3)	(3)
Balance at 31 December 2008	3,609	(2,476)	8,260	9,393	306	9,699
Total comprehensive income	**-**	**1,758**	**2,827**	**4,585**	**107**	**4,692**
Dividends	**-**	**-**	**-**	**-**	**(116)**	**(116)**
Issue of ordinary shares:						
Placing and open offer	**649**	**3,781**	**-**	**4,430**	**-**	**4,430**
Issued on acquisition of HBOS	**1,944**	**5,707**	**-**	**7,651**	**-**	**7,651**
Placing and compensatory open offer	**3,905**	**-**	**-**	**3,905**	**-**	**3,905**
Rights issue	**13,112**	**-**	**-**	**13,112**	**-**	**13,112**
Issued to Lloyds TSB Foundations	**41**	**-**	**-**	**41**	**-**	**41**
Transfer to merger reserve	**(1,000)**	**1,000**	**-**	**-**	**-**	**-**
Redemption of preference shares	**2,684**	**(2,684)**	**-**	**-**	**-**	**-**
Purchase/sale of treasury shares	**-**	**-**	**45**	**45**	**-**	**45**
Employee share option schemes:						

Value of employee services	**-**	**-**	**116**	**116**	**-**	**116**
Adjustment on acquisition	**-**	**-**	**-**	**-**	**5,567**	**5,567**
Extinguishment of minority interests	**-**	**-**	**-**	**-**	**(5,035)**	**(5,035)**
Balance at 31 December 2009	**24,944**	**7,086**	**11,248**	**43,278**	**829**	**44,107**

(1) Restated for IFRS 2 (revised). See note 1 on page 104.

CONSOLIDATED CASH FLOW STATEMENT

	2009	2008(1)
	£ million	£ million
Profit before tax	**1,042**	760
Adjustments for:		
Change in operating assets	**61,942**	(43,025)
Change in operating liabilities	**(105,927)**	80,933
Non-cash and other items	**8,907**	(4,017)
Tax received (paid)	**301**	(810)
Net cash provided by (used in) operating activities	**(33,735)**	33,841
Cash flows from investing activities		
Purchase of available-for-sale financial assets	**(455,816)**	(144,680)
Proceeds from sale and maturity of available-for-sale	**490,561**	110,470

financial assets		
Purchase of fixed assets	**(2,689)**	(1,436)
Proceeds from sale of fixed assets	**2,129**	579
Acquisition of businesses, net of cash acquired	**16,227**	(19)
Disposal of businesses, net of cash disposed	**411**	-
Net cash provided by (used in) investing activities	**50,823**	(35,086)
Cash flows from financing activities		
Dividends paid to equity shareholders	**-**	(2,042)
Dividends paid to minority interests	**(116)**	(29)
Interest paid on subordinated liabilities	**(2,622)**	(771)
Proceeds from issue of subordinated liabilities	**4,187**	3,021
Proceeds from issue of ordinary shares	**21,533**	879
Repayment of subordinated liabilities	**(6,897)**	(381)
Repayment of capital to minority shareholders	**(33)**	(3)
Net cash provided by financing activities	**16,052**	674
Effects of exchange rate changes on cash and cash equivalents	**(210)**	1,440

Change in cash and cash equivalents	**32,930**	869
Cash and cash equivalents at beginning of year	**32,760**	31,891
Cash and cash equivalents at end of year	**65,690**	32,760

(1)
Restated for IFRS 2 (revised). See note 1 on page 104
.

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

1
. Accounting policies and presentation

These financial statements as at and for the year to 31 December 2009 have been prepared in accordance with the Listing Rules of the Financial Services Authority relating to Preliminary Results. They do not include all of the information that will be included in the full annual financial statements. The Group's consolidated financial statements as at and for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Copies of the 2009 annual report and accounts will be available from 27 March 2010 and will be published on the Group's website or are available upon request from the Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

There have been no significant changes to the accounting polices applied to these consolidated financial statements, compared to those applied by the Group in its 2008 annual report and accounts.

The following new IFRS pronouncements relevant to the Group have been adopted in these consolidated financial statements:

(i)
IAS 1 (revised), 'Presentation of financial statements'.
The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity.
All non owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements; the application of this revised standard, which affects presentation only, has not had any impact on amounts recognised in these financial statements.

(ii)

Amendment to IFRS 2 'Share-based Payments - Vesting Conditions and Cancellations'.
This amendment to IFRS 2 'Share-based Payments' restricts the definition of 'vesting condition' to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

The main impact of this amendment for the Group arises from cancellations by employees of contributions to the Group's Save-As-You-Earn (SAYE) schemes; in the event of a cancellation the Group must recognise immediately the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. Under the former IFRS 2, such cancellations would have resulted in the reversal of the costs recognised in current and prior periods in respect of the SAYE schemes concerned for the relevant employees. The amendment is applied retrospectively and has resulted in a restatement of the 2008 comparatives. The effect has been to increase operating expenses and reduce profit before tax by £43 million in 2009 (2008: £47 million) but has had no effect on the Group's balance sheet or shareholders' equity as the increased expense is offset by movements in retained profits.

1. Accounting policies and presentation
(continued)

(iii)
Amendments to IFRS 7 'Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments'
.
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of a three level fair value measurement hierarchy for financial instruments carried on the Group's balance sheet at fair value. As the amendments only result in additional disclosures, the amendments have not had any impact for amounts recognised in these financial statements.

(iv)
IFRS 8 'Operating Segments'
. This new standard replaces IAS 14 'Segment Reporting' and requires reporting of financial and descriptive information about operating segments which are based on how financial information is reported and evaluated internally. The segment information for the year ended 31 December 2009 and for the corresponding comparative period is presented in note 3. The application of this new standard, which affects disclosures only, has not had any impact for amounts recognised in these financial statements.

Balance sheet presentation

In order to provide a more relevant presentation of the Group's financial instruments, additional line items have been added to the consolidated balance sheet to show debt securities classified as loans and receivables separately. Comparatives have been reclassified to conform to the revised presentation.

2. Critical accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

With the exception of the fair value of identifiable net assets of HBOS, the nature of the significant judgements made by management in applying the accounting policies, and the key sources of estimation uncertainty applied by the Group in these financial statements are the same as those applied by the Group in its 2008 annual report and accounts.

The acquisition of the HBOS Group in January 2009 was accounted for in accordance with applicable accounting standards which require the recognition of the identifiable assets acquired and liabilities assumed at their acquisition-date fair values. As part of this process, it is also necessary to identify and recognise certain assets and liabilities which are not included on the acquiree's balance sheet, for example the value of the internally generated brands and other intangible assets.

The exercise to fair value the HBOS Group balance sheet was inherently highly subjective and required management to make a number of assumptions and estimates. The overall effect was to reduce the book value of the assets acquired by £11,975 million, after the recognition of brands and other intangibles not previously included on the HBOS Group balance sheet totalling £4,650 million. This was offset by a reduction in the value of the HBOS Group's liabilities of £13,216 million, resulting in a net increase in the value of the net assets acquired of £1,241 million (note 7).

2. Critical accounting estimates and judgements
(continued)

The fair value adjustments to the HBOS Group's assets principally reflect a reduction of £13,512 million in the value of customer lending. For a significant proportion of these balances there was no active market and therefore in determining the acquisition-date fair values discounted cash flow models have been used. The calculations were performed using benchmark interest rates and market-based credit spreads for the different lending portfolios, having regard to management's view of the level of expected credit losses. The size of the adjustment reflects the market wide reduction in interest rates since the lending was originated and a deterioration in the credit quality of the portfolio in the worsening economic environment.

The reduction in the value of the HBOS Group's liabilities was largely due to the lower values attributed to debt instruments issued by HBOS, for example commercial paper, medium term notes and subordinated debt. In many cases market prices were available to value these instruments and the lower fair values reflect market concern in January 2009 over the creditworthiness of HBOS.

During 2009, the effects of the fair value adjustments have started to unwind and be recognised in the Group's income statement. The determination of the extent to which the adjustments unwind often requires significant judgement principally relating to the assessment of the extent to which losses incurred subsequent to the date of acquisition were expected and consequently reflected in the fair value adjustment made to write down the value of the lending. In the period since the acquisition impairment losses of £6,859 million have been incurred which were reflected in the acquisition fair value adjustments.

Balance sheet presentation

3.

Segmental analysis

Lloyds Banking Group is a leading UK-based financial services group, providing a wide range of banking and financial services in the UK and in certain locations overseas.

The Group Executive Committee (GEC) has been determined to be the chief operating decision maker for the Group. The Group's operating segments reflect its organisational and management structures. GEC reviews the Group's internal reporting based around these segments in order to assess performance and allocate resources. This assessment includes a consideration of each segments' net interest revenue and consequently the total interest income and expense for all reportable segments is presented on a net basis. The segments are differentiated by the type of products provided, by whether the customers are individuals or corporate entities and by the geographical location of the customer.

The Group's activities in 2009 were organised into four financial reporting segments: Retail, Wholesale, Wealth and International and Insurance. The segmental results and comparatives are presented on the basis reviewed by the chief operating decision maker and as a consequence include the pre-acquisition results of HBOS for 2008 and the period from 1 January 2009 to 16 January 2009.

The Retail division, with its brands including Lloyds TSB, Halifax, Bank of Scotland, Birmingham Midshires and Cheltenham & Gloucester, is a UK provider of current accounts, savings, personal loans, credit cards and mortgages serving over 30 million customers through a large branch network in the UK. The division is also a general insurance and bancassurance distributor selling a wide range of long-term savings, investment and general insurance products.

3.

Segmental analysis
(continued)

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 enlarged division, following the acquisition of HBOS, comprises Corporate Markets, Treasury and Trading and Asset Finance. Corporate Markets comprises Corporate, Commercial, Corporate Real Estate, Specialist Finance and Wholesale Markets.

The Insurance division is a bancassurance provider in the UK providing a full range of long-term savings, investment and protection products, together with individual and corporate pensions. It is also a distributor of home and payment protection and home insurance in the UK. The division consists of three business units: Life, Pensions and Investments UK; Life, Pensions and Investments Europe; and General Insurance.

Wealth and International was created in 2009 to give increased focus and momentum to the Group's private banking and asset management activities and to closely co-ordinate the management of its international businesses. Wealth comprises the Group's private banking, wealth and asset management businesses in the UK and overseas. International comprises corporate, commercial, asset finance and retail businesses, principally in Australia, Ireland and Continental Europe.

Other includes the results of managing the Group's technology platforms, branch and head office property estate, operations (including payments, banking operations and collections) and procurement services, the costs of which are predominantly recharged to the other divisions. It also reflects other items not recharged to the divisions, including hedge ineffectiveness. The improvement in revenue of £1,376 million in 2009 compared to 2008 primarily reflects gains on the extinguishment of certain liabilities in 2009.

Inter-segment services are generally recharged at cost, with the exception of the internal commission arrangements between the UK branch and other distribution networks and the insurance product manufacturing businesses within the Group, where a profit margin is also charged. Inter-segment lending and deposits are generally entered into at market rates, except that non-interest bearing balances are priced at a rate that reflects the external yield that could be earned on such funds.

For those derivative contracts entered into by business units for risk management purposes, the business unit retains the amount that would have been recognised on an accrual accounting basis (an amount equal to the interest element of the next payment on the swap) and transfers the remainder of the fair value of the swap to the central group segment where the resulting accounting volatility is managed though the establishment of hedge accounting relationships. Any change in fair value of the hedged instrument attributable to the hedged risk is also recorded within the central group segment. This allocation of the fair value of the swap and change in fair value of the hedged instrument attributable to the hedged risk avoids accounting asymmetry in segmental results and records volatility in the central group segment where it is managed.

3. Segmental analysis (continued)

Comparative figures in this note are presented on a combined businesses basis (see note 1, Basis of preparation of combined business basis, on page 55) consistent with the way in which the chief operating decision-maker receives segment information.

2009	**Net interest income £m**	**Other income £m**	**Total income £m**	**Profit before tax £m**	**External revenue £m**	**Inter-segment revenue £m**
Retail	**7,970**	**1,804**	**9,774**	**1,382**	**14,221**	**(4,447)**
Wholesale	**4,710**					