Lloyds Banking Group plc
Form 6-K
February 26, 2010

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)

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

(Address of principal executive offices)

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

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

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

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

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

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 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.

CONTENTS

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		*Change*
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	
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 £ million	2008 £ 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 £ million	2008 £ 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)
	280	
Pre-acquisition results of HBOS plc		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	2008
	£ million	£ 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	2008	***Change***
	£m	£m	*%*
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	

	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	**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	2008	***Change***
	£m	£m	***%***
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%	

	As at	As at	
	31 Dec	31 Dec	
	2009	2008	***Change***
Key balance sheet items	**£bn**	£bn	***%***
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			