Koehnen Michael W
Form 4
October 04, 2011

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Koehnen Michael W

(Last) (First) (Middle)

63 CONSTITUTION DRIVE

(Street)

CHICO, CA 95973

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TRICO BANCSHARES / [tcbk]

3. Date of Earliest Transaction (Month/Day/Year)
09/30/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	10/04/2011		J (1)		0	A	$ 0	24,202	D (2)	
Common Stock	10/04/2011		J (1)		0	A	$ 0	8,600	I	CF Koehnen & Sons Profit Sharing which I am a Trustee shares held with broker

Common Stock	10/04/2011		J[(1)]		0	A	$ 0	4,400	I	Mother which I am a Trustee
Common Stock	10/04/2011		J[(1)]		0	A	$ 0	1,700	I	By children
Common Stock	10/04/2011		J[(1)]		0	A	$ 0	65,214	I	CF Koehnen & Sons of which I am an owner shares held with broker.
Common Stock	10/04/2011		J[(1)]		0	A	$ 0	2,300	I	By spouse shares held with broker
Common Stock	09/30/2011		J[(3)]		112.7705	A	$ 12.713	16,042.3549	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Koehnen Michael W 63 CONSTITUTION DRIVE CHICO, CA 95973	X			

Signatures

/S/ Michael Koehnen By Suzanne Youngs Attorney-in-Fact	10/04/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) No transactions occurred among these shares, intended only to reflect number of shares beneficially owned.

(2) Shares held with broker.

(3) Please Note: The shares were acquired through dividend reinvestment for September 2011.

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Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. >

Forward asset purchases and forward deposits placed

758

613

Undrawn formal standby facilities, credit lines and other commitments to lend:

Less than 1 year original maturity:	
Mortgage offers made	
	9,058
	3,056
Other commitments	
	64,786
	46,006

Explanation of Responses:

73,844

49,062

1 year or over original maturity

53,693

31,761

128,583

81,755

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £74,477 million (2008: £46,890 million) was irrevocable.

OPERATING LEASE COMMITMENTS

Where a Group company is the lessee the future minimum lease payments under non-cancellable premises operating leases are as follows:

	2009	2008
	£m	£m
Not later than 1 year	**392**	216
Later than 1 year and not later than 5 years	**1,213**	647
Later than 5 years	**1,817**	774
	3,422	1,637

Operating lease payments represent rental payable by the Group for certain of its properties. Some of these operating lease arrangements have renewal options and rent escalation clauses, although the effect of these is not material. No arrangements have been entered into for contingent rental payments.

CAPITAL COMMITMENTS

Excluding commitments in respect of investment property (note 26), capital expenditure contracted but not provided for at 31 December 2009 amounted to £203 million (2008: £92 million). Of this amount, £198 million (2008: £85 million) related to assets to be leased to customers under operating leases. The Group s management is confident that future net revenues and funding will be sufficient to cover these commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS

(1) MEASUREMENT BASIS OF FINANCIAL ASSETS AND LIABILITIES

The accounting policies in note 2 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

	Derivatives designated as hedging instruments £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated upon initial recognition £m	Available-for-sale £m	Loans and receivables £m	Held at amortised cost £m	Insurance contracts £m	Total £m
As at 31 December 2009								
Financial assets								
Cash and balances at central banks						38,994		38,994
Items in the course of collection from banks						1,579		1,579
Trading and other financial assets at fair value through profit or loss		27,245	122,766					150,011
Derivative financial instruments	9,430	40,498						49,928
Loans and receivables:								
Loans and advances to banks					35,361			35,361
Loans and advances to customers					626,969			626,969
Debt securities					32,652			32,652
					694,982			694,982
Available-for-sale financial assets				46,602				46,602
Total financial assets	9,430	67,743	122,766	46,602	694,982	40,573		982,096
Financial liabilities								
Deposits from banks						82,452		82,452
Customer deposits						406,741		406,741
Items in course of transmission to banks						1,037		1,037
Trading and other financial liabilities at fair value through profit or loss		22,111	6,160					28,271
Derivative financial instruments	8,687	31,798						40,485
Debt securities in issue						233,502		233,502
Liabilities arising from insurance contracts and participating investment contracts							76,179	76,179
Liabilities arising from non-participating investment contracts							46,348	46,348
Unallocated surplus within insurance businesses							1,082	1,082
Subordinated liabilities						34,727		34,727
Total financial liabilities	8,687	53,909	6,160			758,459	123,609	950,824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS continued

	Derivatives designated as hedging instruments £m	At fair value through profit or loss		Available-for-sale £m	Loans and receivables £m	Held at amortised cost £m	Insurance contracts £m	Total £m
		Held for trading £m	Designated upon initial recognition £m					
As at 31 December 2008								
Financial assets								
Cash and balances at central banks						5,008		5,008
Items in the course of collection from banks						946		946
Trading and other financial assets at fair value through profit or loss		857	44,207					45,064
Derivative financial instruments	435	28,449						28,884
Loans and receivables:								
Loans and advances to banks					38,733			38,733
Loans and advances to customers					240,344			240,344
Debt securities					4,416			4,416
					283,493			283,493
Available-for-sale financial assets				55,707				55,707
Total financial assets	435	29,306	44,207	55,707	283,493	5,954		419,102
Financial liabilities								
Deposits from banks						66,514		66,514
Customer deposits						170,938		170,938
Items in course of transmission to banks						508		508
Trading and other financial liabilities at fair value through profit or loss		6	6,748					6,754
Derivative financial instruments	4,169	22,723						26,892
Debt securities in issue						75,710		75,710
Liabilities arising from insurance contracts and participating investment contracts							33,792	33,792
Liabilities arising from non-participating investment contracts							14,243	14,243
Unallocated surplus within insurance businesses							270	270
Subordinated liabilities						17,256		17,256
Total financial liabilities	4,169	22,729	6,748			330,926	48,305	412,877

(2) RECLASSIFICATION OF FINANCIAL ASSETS

In accordance with the amendment to IAS 39 that became applicable during 2008, the Group reviewed the categorisation of its financial assets classified as held for trading and available-for-sale.

On the basis that there was no longer an active market for some of those assets, which are therefore more appropriately managed as loans, with effect from 1 July 2008, the Group transferred £2,993 million of assets previously classified as held for trading into loans and receivables. With effect from 1 November 2008, the Group transferred £437 million of assets previously classified as available-for-sale into loans and receivables. At the time of these transfers, the Group had the intention and ability to hold them for the foreseeable future or until maturity. As at the date of reclassification, the weighted average effective interest rate of the assets transferred was 6.3 per cent with the estimated recoverable cash flows of £3,524 million.

No assets have been reclassified in 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS continued

CARRYING AMOUNT AND FAIR VALUES OF RECLASSIFIED ASSETS

The table below sets out the carrying value and fair value of reclassified financial assets.

	31 December 2009		31 December 2008	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
From held for trading to loans and receivables	**1,833**	**1,822**	**2,883**	**2,926**
From available-for-sale financial assets to loans and receivables	**394**	**422**	**454**	**402**
	2,227	**2,244**	**3,337**	**3,328**

During the year ended 31 December 2009, the carrying value of reclassified assets decreased by £1,110 million due to sales and maturities of £990 million, accretion of discount of £61 million and foreign exchange and other movements of £181 million.

Additional fair value gains/(losses) that would have been recognised had the reclassifications not occurred

The table below shows the additional gains/(losses) that would have been recognised in the Group s income statement if the reclassifications had not occurred.

	2009			2008	
	Reclassified in 2009 £m	**Reclassified in 2008 £m**	**Total £m**	Reclassified in 2008 £m	Total £m
From held for trading to loans and receivables		**208**	**208**	(347)	(347)

The table below shows the additional gains/(losses) that would have been recognised in other comprehensive income if the reclassifications had not occurred.

	2009			2008	
	Reclassified in 2009 £m	**Reclassified in 2008 £m**	**Total £m**	Reclassified in 2008 £m	Total £m
From available-for-sale financial assets to loans and receivables		**161**	**161**	(108)	(108)

Actual amounts recognised in respect of reclassified assets

After reclassification the reclassified financial assets contributed the following amounts to the Group income statement.

	2009			2008	
	Reclassified in 2009 £m	**Reclassified in 2008 £m**	**Total £m**	Reclassified in 2008 £m	Total £m
From held for trading to loans and receivables:					
Net interest income		**55**	**55**	31	31
Impairment losses		**(49)**	**(49)**	(158)	(158)
		6	**6**	(127)	(127)

	2009			2008	
	Reclassified in 2009 £m	**Reclassified in 2008 £m**	**Total £m**	Reclassified in 2008 £m	Total £m

From available-for-sale financial assets to loans and receivables:				
Net interest income	**34**	**34**	3	3
Impairment losses	**(56)**	**(56)**	(23)	(23)
	(22)	**(22)**	(20)	(20)

F-95

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS continued

(3) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table summarises the carrying values of financial assets and liabilities presented on the Group s balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	Carrying value 2009 £m	Carrying value 2008 £m	**Fair value 2009 £m**	Fair value 2008 £m
Financial assets				
Trading and other financial assets at fair value through profit or loss	**150,011**	45,064	150,011	45,064
Derivative financial instruments	**49,928**	28,884	49,928	28,884
Loans and receivables:				
Loans and advances to banks	**35,361**	38,733	35,335	37,954
Loans and advances to customers	**626,969**	240,344	609,647	235,569
Debt securities	**32,652**	4,416	31,907	3,931
Available-for-sale financial assets	**46,602**	55,707	46,602	55,707
Financial liabilities				
Deposits from banks	**82,452**	66,514	82,366	66,504
Customer deposits	**406,741**	170,938	406,555	171,119
Trading and other financial liabilities at fair value through profit or loss	**28,271**	6,754	28,271	6,754
Derivative financial instruments	**40,485**	26,892	40,485	26,892
Debt securities in issue	**233,502**	75,710	235,170	76,291
Liabilities arising from non-participating investment contracts	**46,348**	14,243	46,348	14,243
Financial guarantees	**38**	35	38	35
Subordinated liabilities	**34,727**	17,256	33,660	11,199

VALUATION METHODOLOGY

Financial instruments include financial assets, financial liabilities and derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by the Group.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these financial statements are thus advised to use caution when using this data to evaluate the Group s financial position.

Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets, such as the value of the Group s branch network, the long-term relationships with depositors and credit card relationships; premises and equipment; and shareholders equity. These items are material and accordingly the Group believes that the fair value information presented does not represent the underlying value of the Group.

FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

LOANS AND RECEIVABLES

The Group provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates. The carrying value of the variable rate loans and those relating to lease financing is assumed to be their fair value. For fixed rate lending, several different techniques are used to estimate fair value, as considered appropriate. For commercial and personal customers, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by the Group and other financial institutions. The fair value for corporate loans is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period. The fair values of asset-backed securities and secondary loans, which were previously within assets held for trading and were reclassified to loans and receivables (see page F-94), are determined predominantly from lead manager quotes and, where these are not available, by alternative techniques including reference to credit spreads on similar assets with the same obligor, market standard consensus pricing services, broker quotes and other research data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS continued

DEPOSITS FROM BANKS AND CUSTOMER DEPOSITS

The fair value of deposits repayable on demand is considered to be equal to their carrying value. The fair value for all other deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities.

DEBT SECURITIES IN ISSUE AND SUBORDINATED LIABILITIES

The fair value of short-term debt securities in issue is approximately equal to their carrying value. Fair value for other debt securities and for subordinated liabilities is estimated using quoted market prices.

VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The table below provides an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group s consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

VALUATION HIERARCHY

	At 31 December 2009			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Trading and other financial assets at fair value through profit or loss	**103,853**	**43,246**	**2,912**	**150,011**
Available-for-sale financial assets	**12,881**	**31,110**	**2,611**	**46,602**
Derivative financial instruments	**977**	**47,014**	**1,937**	**49,928**
Financial assets	**117,711**	**121,370**	**7,460**	**246,541**
Trading and other financial liabilities at fair value through profit or loss	**511**	**27,760**		**28,271**
Derivative financial instruments	**66**	**40,222**	**197**	**40,485**
Financial guarantees			**38**	**38**
Financial liabilities	**577**	**67,982**	**235**	**68,794**

There were no significant transfers between level 1 and level 2 during the year.

	At 31 December 2008			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Trading and other financial assets at fair value through profit or loss	38,019	5,373	1,672	45,064
Available-for-sale financial assets	30,184	22,362	3,161	55,707
Derivative financial instruments	2,147	26,601	136	28,884
Financial assets	70,350	54,336	4,969	129,655

Trading and other financial liabilities at fair value through profit or loss	6	6,748		6,754
Derivative financial instruments	153	26,161	578	26,892
Financial guarantees			35	35
Financial liabilities	159	32,909	613	33,681

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

LEVEL 1 PORTFOLIOS

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise treasury bills and other government securities.

LEVEL 2 PORTFOLIOS

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data, the instrument is considered to be level 2. Examples of such financial instruments include most over-the-counter derivatives, financial institution issued securities, certificates of deposit and certain asset-backed securities.

LEVEL 3 PORTFOLIOS

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument s valuation is not based on observable market data. Such instruments would include the Group s venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows. Certain of the Group s asset-backed securities and derivatives, principally where there is no trading activity in such securities, are also classified as level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS continued

At 31 December 2009	**Valuation basis/technique**	**Main assumptions**	**Carrying value £m**	**Effect of reasonably possible alternative assumptions £m**
Trading and other financial assets at fair value through profit or loss				
Asset-backed securities	Lead manager or broker quote/ consensus pricing from market data provider	Use of single pricing source	**970**	**74**
Venture capital investments	Various valuation techniques using IPEV Guidelines	Earnings multiples	**1,162**	**n/a**
Equity investments	Various valuation techniques	Earnings, net asset value, underlying asset values, property prices, forecast cash flows	**234**	**n/a**
Unlisted equities and property partnerships in the life funds	Third party valuations	n/a	**546**	**n/a**
			2,912	
Available-for-sale financial assets				
Asset-backed securities	Lead manager or broker quote/ consensus pricing from market data provider	Use of single pricing source	**744**	**10**
Equity investments	Various valuation techniques	Earnings, net asset value, underlying asset values, property prices, forecast cash flows	**1,867**	**n/a**
			2,611	
Derivative financial instruments	Industry standard model / consensus pricing from market data provider	Prepayment rates, probability of default, loss given default and yield curves. Equity conversion feature spread	**1,937**	**96**
Financial assets			**7,460**	
Derivative financial liabilities	Industry standard model / consensus pricing from market data provider	Prepayment rates, probability of default, loss given default and yield curves	**197**	**8**
Financial guarantees			**38**	**n/a**
Financial liabilities			**235**	

Reasonably possible alternative valuations have been calculated for asset-backed securities by using alternative pricing sources and calculating an absolute difference. In respect of derivative financial instruments, reasonably possible alternative valuations have been calculated by flexing the spread between the underlying asset and the credit derivative, or adjusting market yields, by a reasonable amount.

The valuation techniques used for unlisted equities and venture capital investments vary depending on the nature of the investment. Further details of these are given below. Third party valuers have been used to determine the value of unlisted equities and property partnerships included in the Group s life insurance funds. As these factors differ for each investment depending on the nature of the valuation technique used and the inputs there is no single common factor that could be adjusted to provide a reasonable alternative valuation for these investments portfolios.

The main products where level 3 valuations have been used are described below:

ASSET-BACKED SECURITIES

Where there is no trading activity in asset-backed securities, valuation models, consensus pricing information from third party pricing services and broker or lead manager quotes are used to determine an appropriate valuation. Asset-backed securities are then classified as either level 2 or level 3 depending on whether there is more than one consistent independent source of data. If there is a single, uncorroborated market source for a significant valuation input or where there are materially inconsistent levels then the valuation is reported as level 3. Asset classes classified as level 3 mainly comprise certain Residential Mortgage-Backed Securities, Collateralised Loan Obligations and Collateralised Debt Obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS continued

VENTURE CAPITAL INVESTMENTS

The investments in venture capital activities comprise interests in funds and unlisted equity investments that are valued using techniques that are considered appropriate for that investment. Interests in funds are valued in the same manner as investments in the life funds below.

Valuations of unlisted venture capital equities that are accounted for as trading and other financial assets at fair value through profit or loss are calculated using International Private Equity and Venture Capital Guidelines. The majority of investments are valued using the industry standard earnings model. This involves applying the relevant earnings multiple to the maintainable earnings of the business being valued. A number of earnings multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation. The particular multiple selected being appropriate for the type of business being valued and is derived by reference to the current market-based multiple. Consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple. Recent transactions involving the sale of similar businesses may sometimes be used as a frame of reference in deriving an appropriate multiple. Another valuation technique involved, although rarely, is the discounting of projected cash flows at the appropriate cost of capital.

EQUITY INVESTMENTS

Unlisted equities and funds accounted for as available-for-sale assets are valued using different techniques as a result of the variety of investments across the portfolio. A valuation technique is selected for each investment in accordance with the Group s valuation policy. Depending on the business sector and the circumstances of the investment unlisted equity valuations are based on earnings multiples, net asset values or discounted cash flows.

- The earnings multiple methodology is described in the section on venture capital investments above.

- Valuations using net asset values are often used for property-based businesses and use the latest valuations included in management or statutory accounts adjusted for subsequent movements in property valuations and other factors including recoverability.

- Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, with the application of appropriate exit yields or terminal multiples and discounted using rates appropriate to the specific investment, business sector or recent economic rates of return.

For fund investments the most recent capital account value calculated by the fund manager is used as the basis for the valuation and adjusted, if necessary, to align valuation techniques with the Group s valuation policy.

UNQUOTED EQUITIES AND PROPERTY PARTNERSHIPS IN THE LIFE FUNDS

Third party valuations are used to obtain the fair value of unquoted investments. Management take account of any pertinent information, such as recent transactions and information received on particular investments, to adjust the third party valuations where necessary.

DERIVATIVES

Where the Group s derivative assets and liabilities are not traded on an exchange, they are valued using valuation techniques, including discounted cash flow and options pricing models, as appropriate. The types of derivatives classified as level 2 and the valuation techniques used include:

- Interest rate swaps are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from publicly quoted rates.

- Foreign exchange derivatives that do not contain options are priced using rates available from publicly quoted sources.

Credit derivatives, except for the items classified as level 3, are valued using publicly available yield and credit default swap (CDS) curves; the Group uses standard models with observable inputs.

Less complex interest rate and foreign exchange option products are valued using volatility surfaces developed from publicly available interest rate cap, interest rate swaption and other option volatilities; option volatility skew information is derived from a market standard consensus pricing service. For more complex option products, the Group calibrates its models using observable at-the-money data; where necessary, the Group adjusts for out-of-the-money positions using a market standard consensus pricing service.

Where credit protection, usually in the form of credit default swaps, has been purchased or written on asset-backed securities, the security is referred to as a negative basis ABS and the resulting derivative assets or liabilities have been classified as either level 2 or level 3 according to the classification of the underlying ABS.

The Group s level 3 derivatives include £1,797 million in respect of the value of the embedded equity conversion feature of the enhanced capital notes issued in December 2009. Level 3 derivatives also include £140 million of credit default swaps written on level 3 negative basis ABS and £197 million of embedded derivatives included in investments of synthetic CDOs. The embedded equity conversion feature is valued by comparing the market price of the ECNs with the market price of similar bonds without the conversion feature. The latter is calculated by discounting the expected ECN cash flows in the absence of a conversion using prevailing market yields for similar capital securities without the conversion feature. The market price of the ECNs was calculated with reference to multiple broker quotes. Movements in the fair value of the derivative are recorded in net trading income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS continued

CREDIT VALUATION ADJUSTMENT

A Credit Valuation Adjustment (CVA) is applied to the Group s over-the-counter corporate derivative exposures to adjust the counterparty credit risk-free derivative valuations provided by standard interbank lending interest rate curves. The Group uses a simulation model to develop expected future exposures and calculate a pricing reserve based on the relative credit spread of the counterparty compared to the Group. At 31 December 2009 the CVA balance was £663 million (31 December 2008: £203 million). This adjustment has been made to the valuation of over-the-counter derivative instruments classified as level 2.

Observable CDS spreads and recovery rates are used to develop the probability of default for quoted clients. Observable sector CDS curves and recovery rates are used for unquoted clients. The Loss Given Default (LGD) is based on observable recovery rates and internal credit assessments. The combination of a one notch deterioration in credit rating of derivative counterparties and a 10 per cent increase in LGD increases the CVA charge by £181 million. Current market value is used to estimate the projected exposure for products not supported by the model. For these, CVA is calculated on an add-on basis (in total contributing 10 per cent of the overall CVA balance at 31 December 2009). A separate reserve of £43 million is held against features not supported by the current CVA model including rate/credit and wrong-way risk (where exposure to the counterparty is adversely correlated with the credit quality of the counterparty). A separate provision of £25 million is held against pricing risk on collateralised counterparties.

In addition, credit valuation adjustments have been applied to the Group s credit derivative exposures with monoline insurance counterparties leaving a net exposure of £75 million as shown in note 54 on page F-111.

MOVEMENTS IN LEVEL 3 PORTFOLIO

The table below analyses movements in the Level 3 financial assets portfolio.

	Trading and other financial assets at fair value through profit or loss £m	Available-for-sale £m	Derivative assets £m	Total financial assets £m
At 31 December 2008	1,672	3,161	136	4,969
Exchange and other adjustments	**(232)**	**(205)**	**74**	**(363)**
Acquired on acquisition	**3,386**	**2,291**	**569**	**6,246**
Gains (losses) recognised in the income statement	**(114)**	**(452)**	**(1,005)**	**(1,571)**
Gains (losses) recognised in other comprehensive income		**191**		**191**
Purchases	**374**	**422**	**2,224**	**3,020**
Sales	**(465)**	**(671)**	**(61)**	**(1,197)**
Transfers into the Level 3 portfolio	**33**	**48**		**81**
Transfers out of the Level 3 portfolio	**(1,742)**	**(2,174)**		**(3,916)**
At 31 December 2009	**2,912**	**2,611**	**1,937**	**7,460**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53 FINANCIAL INSTRUMENTS continued

The table below analyses movements in the Level 3 financial liabilities portfolio.

	Derivative liabilities £m	Financial guarantees £m	Total financial liabilities £m
At 31 December 2008	578	35	613
Exchange and other adjustments	**(179)**		**(179)**
Acquired on acquisition	**1,102**		**1,102**
Gains recognised in the income statement	**(47)**		**(47)**
Additions		**3**	**3**
Redemptions	**(474)**		**(474)**
Transfers out of the Level 3 portfolio	**(783)**		**(783)**
At 31 December 2009	**197**	**38**	**235**

Transfers out of the Level 3 portfolio arise when inputs that could have a significant impact on the instrument s valuation become market observable after previously having been non-market observable. In the case of asset-backed securities this can arise if more than one consistent independent source of data becomes available. Conversely transfers into the portfolio arise when consistent sources of data cease to be available.

Included within the gains (losses) recognised in the income statement are losses of £1,542 million related to financial instruments that are held in the Level 3 portfolio at the year end. These amounts are included in other operating income.

54 FINANCIAL RISK MANAGEMENT

As a bancassurer, financial instruments are fundamental to the Group s activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by the Group.

The primary risks affecting the Group through its use of financial instruments are: credit risk; market risk, which includes interest rate risk and foreign exchange risk; and liquidity risk. Information about the Group s exposure to each of the above risks, the Group s objectives, policies and processes for measuring and managing risk and the Group s management of capital can be found on pages 57 to 96. The following additional disclosures, which provide quantitative information about the risks within financial instruments held or issued by the Group, should be read in conjunction with that earlier information.

(1) INTEREST RATE RISK

In the Group s retail banking business interest rate risk arises from the different repricing characteristics of the assets and liabilities. Liabilities are either insensitive to interest rate movements, for example interest free or very low interest customer deposits, or are sensitive to interest rate changes but bear rates which may be varied at the Group s discretion and that for competitive reasons generally reflect changes in the Bank of England s base rate. There is a relatively small volume of deposits whose rate is contractually fixed for their term to maturity.

Many banking assets are sensitive to interest rate movements; there is a large volume of managed rate assets such as variable rate mortgages which may be considered as a natural offset to the interest rate risk arising from the managed rate liabilities. However, a significant proportion of the Group s lending assets, for example personal loans and mortgages, bear interest rates which are contractually fixed for periods of up to five years or longer.

The Group establishes two types of hedge accounting relationships for interest rate risk: fair value hedges and cash flow hedges. The Group is exposed to fair value interest rate risk on its fixed rate customer loans, its fixed rate customer deposits and the majority of its subordinated debt, and to cash flow interest rate risk on its variable rate loans and deposits together with its floating rate subordinated debt. The majority of the Group s hedge accounting relationships are fair value hedges where interest rate swaps are used to hedge the interest rate risk inherent in the fixed rate mortgage portfolio.

At 31 December 2009 the aggregate notional principal of interest rate swaps designated as fair value hedges was £80,085 million (2008: £37,243 million) with a net fair value asset of £3,004 million (2008: liability of £1,231 million) (note 18). The losses on the hedging instruments were £995 million (2008: losses of £584 million). The gains on the hedged items attributable to the hedged risk were £1,181 million (2008: gains of £426 million).

In addition the Group has cash flow hedges which are primarily used to hedge the variability in the cost of funding within the wholesale business. These cash flows are expected to occur over the next six years and the hedge accounting adjustments will be reported in the income statement as the cash flows arise. The notional principal of the interest rate swaps designated as cash flow hedges at 31 December 2009 was £222,548 million (2008: £867 million) with a net fair value liability of £2,536 million (2008: £90 million) (note 18). In 2009, there is no ineffectiveness recognised in the income statement that arises from cash flow hedges (2008: nil). There were no transactions for which cash flow hedge accounting had to be ceased in 2009 or 2008 as a result of the highly probable cash flows no longer being expected to occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

(2) CURRENCY RISK

Foreign exchange exposures comprise those originating in treasury trading activities and structural foreign exchange exposures, which arise from investment in the Group s overseas operations.

The corporate and retail businesses incur foreign exchange risk in the course of providing services to their customers. All non-structural foreign exchange exposures in the non-trading book are transferred to the trading area where they are monitored and controlled. These risks reside in the authorised trading centres who are allocated exposure limits. The limits are monitored daily by the local centres and reported to the market and liquidity risk function in London. Associated VaR and the closing, average, maximum and minimum for 2008 and 2009 are disclosed on page 78.

Risk arises from the Group s investments in its overseas operations. The Group s structural foreign currency exposure is represented by the net asset value of the foreign currency equity and subordinated debt investments in its subsidiaries and branches. Gains or losses on structural foreign currency exposures are taken to reserves.

The Group hedges part of the currency translation risk of the net investment in certain foreign operations using cross currency swaps and borrowings. At 31 December 2009 the aggregate notional principal of these cross currency swaps was £2,507 million (2008: £6,318 million) with a net fair value asset of £25 million (2008: liability of £2,413 million) (note 18) and they were designated on an after-tax basis as hedges of net investments in foreign operations. In 2009, ineffectiveness of £nil before tax and £nil after tax (2008: ineffectiveness of £14 million before tax and £10 million after tax) was recognised in the income statement arising from net investment hedges.

The Group s main overseas operations are in the Americas, Asia, Australasia and Europe. Details of the Group s structural foreign currency exposures, after net investment hedges, are as follows:

FUNCTIONAL CURRENCY OF GROUP OPERATIONS

	2009 £m	2008 £m
Euro:		
Gross exposure	**2,764**	133
Net investment hedge	**(2,651)**	
	113	133
US dollar:		
Gross exposure	**(184)**	(907)
Net investment hedge	**62**	
	(122)	(907)
Swiss franc:		
Gross exposure	**2,552**	2,784
Net investment hedge	**(2,467)**	(2,663)
	85	121
Australian dollar:		
Gross exposure	**1,869**	
Net investment hedge	**(1,832)**	
	37	
Japanese yen:		
Gross exposure	**3,220**	3,667
Net investment hedge	**(3,207)**	(3,645)
	13	22
Other non-sterling	**316**	296
	442	(335)

F-102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

(3) CREDIT RISK

The Group s credit risk exposure arises predominantly in the United Kingdom, the European Union, Australia and the United States.

The maximum credit risk exposure of the Group in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions and financial guarantees, their contractual nominal amounts.

	2009	2008
	£m	£m
Loans and receivables:		
Loans and advances to banks	**35,510**	38,868
Loans and advances to customers	**641,770**	243,803
Debt securities	**33,082**	4,549
Deposit amounts available for offset[1]	**(13,373)**	(4,837)
Impairment allowances	**(15,380)**	(3,727)
	681,609	278,656
Available-for-sale financial assets (excluding equity shares)	**44,571**	55,666
Trading and other financial assets at fair value through profit or loss (excluding equity shares)	**65,861**	21,790
Derivative assets, before netting	**49,928**	28,884
Amounts available for offset under master netting arrangements[1]	**(21,698)**	(10,598)
	28,230	18,286
Assets arising from reinsurance contracts held	**1,875**	385
Financial guarantees	**18,021**	10,382
Irrevocable loan commitments and other credit-related contingencies[2]	**80,585**	51,659
Maximum credit risk exposure	**920,752**	436,824
Maximum credit risk exposure before offset items	**955,823**	452,259

1 Deposit amounts available for offset and amounts available for offset under master netting arrangements do not meet the criteria under IAS 32 to enable loans and advances and derivative assets respectively to be presented net of these balances in the financial statements.

2 See note 52 Contingent liabilities and commitments for further information.

A general description of collateral held in respect of financial instruments is disclosed on page 65.

Loans and advances to banks the Group may require collateral before entering into a credit commitment with another bank, depending on the type of the financial product and the counterparty involved, and netting agreements are obtained whenever possible and to the extent that such agreements are legally enforceable.

Available-for-sale debt securities, treasury and other bills, and trading and other financial assets at fair value through profit or loss the credit quality of the Group s available-for-sale debt securities, treasury and other bills, and the majority of the Group s trading and other financial assets at fair value through profit or loss held is set out below. An analysis of trading and other financial assets at fair value through profit or loss is included in note 17 and a similar analysis for available-for-sale financial assets is included in note 25. The Group s non-participating investment contracts are all unit-linked. Trading and other financial assets at fair value through profit or loss which back those investment contracts were £118,573 million (2008: £39,899 million). Movements in the fair value of such assets, including movements arising from credit risk, are borne by the contract holders.

Derivative assets the Group reduces exposure to credit risk by using master netting agreements and by obtaining cash collateral. An analysis of derivative assets is given in note 18. Of the net derivative assets of £28,230 million (31 December 2008: £18,286 million), cash collateral of £6,645 million (31 December 2008: £2,970 million) was held and a further £13,004 million was due from OECD banks (31 December 2008: £5,840 million).

Assets arising from reinsurance contracts held of the assets arising from reinsurance contracts held at 31 December 2009 of £1,875 million (31 December 2008: £385 million), £510 million (31 December 2008: £380 million) were due from insurers with a credit rating of AA or above.

F-103

Explanation of Responses:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

Financial guarantees these represent undertakings that the Group will meet a customer s obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments, however, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Reverse repo and repo transactions for reverse repo transactions which are accounted for as collateralised loans, it is the Group s policy to seek collateral which is at least equal to the amount loaned. At 31 December 2009, the fair value of collateral accepted under reverse repo transactions that the Group is permitted by contract or custom to sell or repledge was £26,732 million (2008: £5,858 million). Of this, £26,732 million (2008: £5,855 million) was sold or repledged as at 31 December 2009. The fair value of collateral pledged in respect of repo transactions, accounted for as secured borrowings, where the secured party is permitted by contract or custom to repledge was £38,102 million (31 December 2008: £5,734 million).

LOANS AND ADVANCES

		Loans and advances to customers				
	Loans and advances to banks £m	Retail mortgages £m	Retail other £m	Wholesale £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2009						
Neither past due nor impaired	**35,333**	**347,292**	**48,429**	**185,872**	**581,593**	**19,082**
Past due but not impaired		**12,587**	**1,873**	**5,118**	**19,578**	
Impaired no provision required		**2,034**	**449**	**6,603**	**9,086**	
provision held	**153**	**5,918**	**5,902**	**37,927**	**49,747**	
Gross	**35,486**	**367,831**	**56,653**	**235,520**	**660,004**	**19,082**
Allowance for impairment losses	**(149)**	**(1,774)**	**(3,379)**	**(20,835)**	**(25,988)**	
Fair value adjustments	**24**				**(7,047)**	
Net	**35,361**				**626,969**	**19,082**
31 December 2008						
Neither past due nor impaired	38,716	110,148	33,571	86,707	230,426	608
Past due but not impaired	17	3,134	1,146	555	4,835	
Impaired no provision required		479	150	1,253	1,882	
provision held	135	882	4,327	1,451	6,660	
Gross	38,868	114,643	39,194	89,966	243,803	608
Allowance for impairment losses	(135)	(186)	(2,345)	(928)	(3,459)	
Net	38,733	114,457	36,849	89,038	240,344	608

The analysis of lending between retail and wholesale has been prepared based upon the type of exposure and not the business segment in which the exposure is recorded. Included within retail are exposures to personal customers and small businesses, whilst included within wholesale are exposures to corporate customers and other large institutions.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss are disclosed in note 3. All impaired loans which exceed certain thresholds, principally within the Group s Wholesale division, are individually assessed for impairment by reviewing expected future cash flows including those that could arise from the realisation of security. Included in loans and receivables are advances individually determined to be impaired with a gross amount before impairment allowances of

£44,675 million (31 December 2008: £2,699 million) which have associated collateral with a fair value of £10,217 million (31 December 2008: £518 million).

F-104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

LOANS AND ADVANCES WHICH ARE NEITHER PAST DUE NOR IMPAIRED

	Loans and advances to banks £m	Loans and advances to customers: Retail mortgages £m	Retail other £m	Wholesale £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2009						
Good quality	**34,434**	**335,482**	**30,743**	**61,810**		**18,702**
Satisfactory quality	**135**	**9,614**	**12,654**	**59,752**		**267**
Lower quality	**15**	**746**	**1,480**	**45,986**		**90**
Below standard, but not impaired	**749**	**1,450**	**3,552**	**18,324**		**23**
	35,333	**347,292**	**48,429**	**185,872**	**581,593**	**19,082**
31 December 2008						
Good quality	38,283	109,815	21,373	49,349		129
Satisfactory quality	215	264	9,192	31,042		411
Lower quality	204		900	5,831		56
Below standard, but not impaired	14	69	2,106	485		12
	38,716	110,148	33,571	86,707	230,426	608

The definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired applying to retail and wholesale are not the same, reflecting the different characteristics of these exposures and the way they are managed internally, and consequently totals are not provided. Wholesale lending has been classified using internal probability of default rating models mapped so that they are comparable to external credit ratings. Good quality lending comprises the lower assessed default probabilities, with other classifications reflecting progressively higher default risk. Classifications of retail lending incorporate expected recovery levels for mortgages, as well as probabilities of default assessed using internal rating models. Good quality lending includes the lower assessed default probabilities and all loans with low expected losses in the event of default, with other categories reflecting progressively higher risks and lower expected recoveries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

LOANS AND ADVANCES WHICH ARE PAST DUE BUT NOT IMPAIRED

		Loans and advances to customers				
	Loans and advances to banks £m	**Retail mortgages £m**	**Retail other £m**	**Wholesale £m**	**Total £m**	**Loans and advances designated at fair value through profit or loss £m**
31 December 2009						
0-30 days		**6,018**	**1,316**	**2,347**	**9,681**	
30-60 days		**2,649**	**376**	**825**	**3,850**	
60-90 days		**1,702**	**74**	**825**	**2,601**	
90-180 days		**2,216**	**48**	**560**	**2,824**	
Over 180 days		**2**	**59**	**561**	**622**	
		12,587	**1,873**	**5,118**	**19,578**	
Fair value of collateral held		**10,845**	**n/a**	**n/a**	**n/a**	
31 December 2008						
0-30 days		1,527	853	289	2,669	
30-60 days		633	259	90	982	
60-90 days	17	424	32	70	526	
90-180 days		549	2	77	628	
Over 180 days		1		29	30	
	17	3,134	1,146	555	4,835	
Fair value of collateral held		2,637	n/a	n/a	n/a	

A financial asset is past due if a counterparty has failed to make a payment when contractually due.

Collateral held against retail mortgage lending is principally comprised of residential properties; their fair value has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices, after making allowance for indexation error and dilapidations. The resulting valuation has been limited to the principal amount of the outstanding advance in order to provide a clearer representation of the Group s credit exposure.

Lending decisions are based on an obligor s ability to repay from normal business operations rather than reliance on the disposal of any security provided. Collateral values for non-mortgage lending are assessed more rigorously at the time of loan origination or when taking enforcement action and may fluctuate, as in the case of floating charges, according to the level of assets held by the customer. Whilst collateral is reviewed on a regular basis in accordance with business unit credit policy, this varies according to the type of lending and collateral involved. It is therefore not practicable to estimate and aggregate current fair values of collateral for non-mortgage lending.

RENEGOTIATED LOANS AND ADVANCES

Loans and advances that were renegotiated during the year and that would otherwise have been past due or impaired at 31 December 2009 totalled £3,919 million (31 December 2008: £144 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

FORBEARANCE

Forbearance or repayment arrangements allow a mortgage customer to repay a monthly amount which is lower than their contractual monthly payment for a short period. This period is usually for no more than 12 months and is negotiated with the customer by the mortgage collectors. During the period of forbearance, there is no clearing down of arrears such that unless the customer is paying more than their contractual minimum payment, arrears balances will remain. When customers come to the end of their arrangement period they will continue to be managed as a mainstream collections case and if unable to recover then will move toward possession.

Customers can have their arrears balance recapitalised once they have demonstrated they can pay the original contractual minimum payment, but are unable to clear their arrears. This is usually demonstrated by the customer making six consecutive contractual monthly payments. Customers are not however able to recapitalise more than twice in a five year period. Recapitalised mortgages will return to the non-impaired book and will be managed in accordance with the recapitalised terms of the mortgage.

REPOSSESSED COLLATERAL

	2009 **£m**	2008 £m
Residential property	**1,353**	221
Other	**701**	26
	2,054	247

In respect of retail portfolios, the Group does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations. In certain circumstances the Group takes physical possession of assets held as collateral against wholesale lending. In such cases, the assets are carried on the Group s balance sheet and are classified according to the Group s accounting policies.

LOAN-TO-VALUE RATIO OF MORTGAGE LENDING

	2009 **£m**	2008 £m
Analysis by loan-to-value ratio of the Group s residential mortgage lending which is neither past due nor impaired:		
Less than 70 per cent	**142,614**	55,040
70 per cent to 80 per cent	**54,079**	15,812
80 per cent to 90 per cent	**52,238**	15,954
Greater than 90 per cent	**98,361**	23,342
	347,292	110,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

Debt securities, treasury and other bills analysis by credit rating:

	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
As at 31 December 2009							
Debt securities held at fair value through profit or loss							
Trading assets:							
Government securities	2,100	806				30	2,936
Other public sector securities			6				6
Bank and building society certificates of deposit		1,037	997				2,034
Other asset-backed securities	331	379	181				891
Corporate and other debt securities	1,025	312	1,328	348	72	12	3,097
Total held as trading assets	3,456	2,534	2,512	348	72	42	8,964
Other assets held at fair value through profit or loss:							
Government securities	16,025	581	337	26		56	17,025
Other public sector securities	675	16				9	700
Asset-backed securities:							
Mortgage-backed securities	316	134	45	24		1	520
Other asset-backed securities	403	325	654	333	265	19	1,999
	719	459	699	357	265	20	2,519
Corporate and other debt securities	4,070	1,359	4,540	3,407	1,062	3,133	17,571
Total other assets held at fair value through profit or loss	21,489	2,415	5,576	3,790	1,327	3,218	37,815
Total held at fair value through profit or loss	24,945	4,949	8,088	4,138	1,399	3,260	46,779
Available-for-sale financial assets							
Debt securities:							
Government securities	8,222	263	35			149	8,669
Other public sector securities						31	31
Bank and building society certificates of deposit	22	499	452	22	19		1,014
Asset-backed securities:							
Mortgage-backed securities	3,820	555	215	156	35		4,781
Other asset-backed securities	6,080	731	448	179	186	16	7,640
	9,900	1,286	663	335	221	16	12,421
Corporate and other debt securities	2,002	7,342	8,802	1,350	228	180	19,904
Total debt securities	20,146	9,390	9,952	1,707	468	376	42,039
Treasury bills and other bills	269	2,263					2,532
Total held as available-for-sale assets	20,415	11,653	9,952	1,707	468	376	44,571
Debt securities classified as loans and receivables							
Asset-backed securities:							
Mortgage-backed securities	9,183	2,470	805	682	182		13,322
Other asset-backed securities	11,824	2,465	1,449	277	965	157	17,137
	21,007	4,935	2,254	959	1,147	157	30,459
Corporate and other debt securities		439	823	69	306	986	2,623
Total debt securities classified as loans and receivables	21,007	5,374	3,077	1,028	1,453	1,143	33,082

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

Debt securities, treasury and other bills analysis by credit rating:

	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
As at 31 December 2008							
Debt securities held at fair value through profit or loss							
Trading assets:							
Government securities	38						38
Corporate and other debt securities	76	187	38	68	87	80	536
Total held as trading assets	114	187	38	68	87	80	574
Other assets held at fair value through profit or loss:							
Government securities	7,025	45	138	1		117	7,326
Other public sector securities						18	18
Bank and building society certificates of deposit	96	337					433
Asset-backed securities:							
Mortgage-backed securities	207	108	23	16		15	369
Other asset-backed securities	206	362	391	277	105	1	1,342
	413	470	414	293	105	16	1,711
Corporate and other debt securities	3,194	864	2,911	2,142	599	1,410	11,120
Total other assets held at fair value through profit or loss	10,728	1,716	3,463	2,436	704	1,561	20,608
Total held at fair value through profit or loss	10,842	1,903	3,501	2,504	791	1,641	21,182
Available-for-sale financial assets							
Debt securities:							
Government securities	851		1			16	868
Other public sector securities						12	12
Bank and building society certificates of deposit		9,418	166		18		9,602
Asset-backed securities:							
Mortgage-backed securities	5,523	59	59	18	41		5,700
Other asset-backed securities	7,412	235	134	73	184	54	8,092
	12,935	294	193	91	225	54	13,792
Corporate and other debt securities	168	1,257	192			566	2,183
Total debt securities	13,954	10,969	552	91	243	648	26,457
Treasury bills and other bills	26,858	2,351					29,209
Total held as available-for-sale assets	40,812	13,320	552	91	243	648	55,666
Debt securities classified as loans and receivables							
Asset-backed securities:							
Mortgage-backed securities	431	6		31	10		478
Other asset-backed securities	73	72	162	53	10	170	540
	504	78	162	84	20	170	1,018
Corporate and other debt securities	18	1,204	1,663	114		532	3,531
Total debt securities classified as loans and receivables	522	1,282	1,825	198	20	702	4,549

There are no material amounts for debt securities, treasury and other bills which are past due but not impaired.

F-109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

CREDIT MARKET EXPOSURES

The Group s credit market exposures primarily relate to asset-backed securities exposures held in the Wholesale division. These exposures are classified as loans and receivables (note 23), available-for-sale (note 25) and trading and other financial assets at fair value through profit or loss (note 17) depending on the nature of the investment.

	Loans and receivables £m	Available-for-sale £m	Trading and other financial assets at fair value through profit or loss £m	Net exposure as at 31 December 2009 £m	Net exposure as at 31 December 2008 £m
Asset-backed securities					
Mortgage-backed securities:					
US residential mortgage-backed securities	**4,826**			**4,826**	488
Non-US residential mortgage-backed securities	**6,078**	**3,577**		**9,655**	4,585
Commercial mortgage-backed securities	**2,561**	**1,176**		**3,737**	1,328
	13,465	**4,753**		**18,218**	6,401
Collateralised debt obligations:					
Corporate	**86**			**86**	
Commercial real estate	**509**			**509**	
Other	**151**	**45**		**196**	189
Collateralised loan obligation	**4,006**	**1,739**		**5,745**	2,319
	4,752	**1,784**		**6,536**	2,508
Personal sector:					
Auto loans	**1,006**	**724**		**1,730**	796
Credit cards	**2,938**	**782**		**3,720**	1,126
Personal loans	**769**	**230**		**999**	39
	4,713	**1,736**		**6,449**	1,961
Federal family education loan programme student loans	**5,938**	**3,306**		**9,244**	2,951
Other asset-backed securities	**400**	**783**		**1,183**	1,050
Total uncovered asset-backed securities	**29,268**	**12,362**		**41,630**	14,871
Negative basis[1]		**59**	**1,174**	**1,233**	584
Total Wholesale asset-backed securities	**29,268**	**12,421**	**1,174**	**42,863**	15,455
Direct	**19,386**	**7,039**	**1,174**	**27,599**	8,728
Conduits (note 22)	**9,882**	**5,382**		**15,264**	6,727
Total Wholesale asset-backed securities	**29,268**	**12,421**	**1,174**	**42,863**	15,455
Other asset-backed securities	**1,191**		**2,236**	**3,427**	1,066
Total asset-backed securities	**30,459**	**12,421**	**3,410**	**46,290**	16,521

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

Explanation of Responses:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

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

	Pre-2005 £m	2005 £m	2006 £m	2007 £m	**Net exposure as at 31 December 2009 £m**	Net exposure as at 31 December 2008 £m
Asset class						
Prime	274	282	196	107	**859**	
Alt-A	125	806	1,525	1,511	**3,967**	488
Sub-prime						
	399	1,088	1,721	1,618	**4,826**	488

EXPOSURES TO MONOLINES

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

	Credit default swaps		**Wrapped loans and receivables**		**Wrapped bonds**	
	Notional £m	**Exposure[1] £m**	**Notional £m**	**Exposure[2] £m**	**Notional £m**	**Exposure[3] £m**
Investment grade	**1,030**	**75**	**401**	**260**	**156**	**101**
Sub-investment grade					**234**	**8**
	1,030	**75**	**401**	**260**	**390**	**109**

1 The exposure to monolines arising from credit default swaps is calculated as the mark-to-market of the CDS protection purchased from the monoline after credit valuation adjustments.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

CREDIT RATINGS

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

	Net Exposure £m	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Below B £m
Asset class								
Mortgage-backed securities								
US residential mortgage-backed securities:								
Prime	**859**	**435**	**245**	**42**	**16**	**22**	**31**	**68**
Alt-A	**3,967**	**2,819**	**729**	**286**	**102**	**27**	**2**	**2**
Sub-prime								
	4,826	**3,254**	**974**	**328**	**118**	**49**	**33**	**70**
Non-US residential mortgage-backed securities	**9,655**	**8,742**	**862**	**48**	**3**			
Commercial mortgage-backed securities	**3,737**	**1,067**	**1,325**	**476**	**755**	**58**		**56**
	18,218	**13,063**	**3,161**	**852**	**876**	**107**	**33**	**126**
Collateralised debt obligations								
Corporate	**86**	**24**	**45**	**6**		**11**		
Commercial real estate	**509**	**99**	**158**	**159**	**33**	**45**	**15**	
Other	**196**		**130**				**10**	**56**
	791	**123**	**333**	**165**	**33**	**56**	**25**	**56**
Collateralised loan obligation	**5,745**	**2,200**	**2,206**	**963**	**111**	**239**	**18**	**8**
	6,536	**2,323**	**2,539**	**1,128**	**144**	**295**	**43**	**64**
Personal sector								
Auto loans	**1,730**	**1,430**	**24**	**74**	**10**	**192**		
Credit Cards	**3,720**	**3,606**	**114**					
Personal loans	**999**	**789**	**56**	**154**				
	6,449	**5,825**	**194**	**228**	**10**	**192**		
Federal family education loan programme								
Student loans	**9,244**	**9,152**	**92**					
Other asset-backed securities	**1,183**	**297**	**1**	**492**	**246**	**131**	**16**	
Negative basis[1]								
Monolines	**970**	**376**	**379**	**215**				
Banks	**263**	**50**	**9**					**204**
	1,233	**426**	**388**	**215**				**204**
Total as at 31 December 2009	**42,863**	**31,086**	**6,375**	**2,915**	**1,276**	**725**	**92**	**394**
Total as at 31 December 2008	15,455	13,518	436	131	260			1,110

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

(4) LIQUIDITY RISK

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining contractual period at the balance sheet date; balances with no fixed maturity are included in the over 5 years category.

MATURITIES OF ASSETS AND LIABILITIES

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
As at 31 December 2009						
Assets						
Trading and other financial assets at fair value through profit or loss	**22,912**	**6,047**	**10,517**	**9,666**	**100,869**	**150,011**
Derivative financial instruments	**15,222**	**1,245**	**3,756**	**15,611**	**14,094**	**49,928**
Loans and advances to banks	**24,641**	**2,783**	**4,759**	**1,880**	**1,298**	**35,361**
Loans and advances to customers	**84,441**	**12,623**	**30,296**	**126,355**	**373,254**	**626,969**
Debt securities held as loans and receivables	**92**	**143**	**557**	**4,149**	**27,711**	**32,652**
Available-for-sale financial assets	**1,205**	**3,134**	**3,172**	**19,885**	**19,206**	**46,602**
Other assets	**44,816**	**448**	**587**	**385**	**39,496**	**85,732**
	193,329	**26,423**	**53,644**	**177,931**	**575,928**	**1,027,255**
Liabilities						
Deposits from banks	**45,877**	**15,522**	**16,612**	**1,106**	**3,335**	**82,452**
Customer deposits	**326,931**	**26,637**	**18,234**	**30,627**	**4,312**	**406,741**
Derivative financial instruments, trading and other liabilities at fair value through profit or loss	**26,494**	**4,655**	**9,330**	**17,827**	**10,450**	**68,756**
Debt securities in issue	**37,981**	**36,321**	**33,475**	**75,912**	**49,813**	**233,502**
Liabilities arising from insurance and investment contracts	**57,797**	**1,480**	**2,975**	**12,151**	**49,206**	**123,609**
Other liabilities	**3,674**	**502**	**1,372**	**4,056**	**23,757**	**33,361**
Subordinated liabilities	**55**	**280**	**754**	**8,568**	**25,070**	**34,727**
	498,809	**85,397**	**82,752**	**150,247**	**165,943**	**983,148**
As at 31 December 2008						
Assets						
Trading and other financial assets at fair value through profit or loss	196	216	606	3,059	40,987	45,064
Derivative financial instruments	7,366	1,956	3,362	7,570	8,630	28,884
Loans and advances to banks	23,585	4,712	7,002	5,354	105	40,758
Loans and advances to customers	39,854	7,254	15,430	56,331	123,866	242,735
Available-for-sale financial assets	31,204	6,800	2,076	8,843	6,784	55,707
Other assets	9,647	590	22	249	12,377	22,885
	111,852	21,528	28,498	81,406	192,749	436,033
Liabilities						
Deposits from banks	49,579	13,580	1,399	1,956		66,514
Customer deposits	152,065	8,449	7,925	2,054	445	170,938
Derivative financial instruments, trading and other liabilities at fair value through profit or loss	6,725	1,977	3,204	11,871	9,869	33,646
Debt securities in issue	24,236	26,718	8,636	12,783	3,337	75,710

Liabilities arising from insurance and investment contracts	382	983	2,695	8,117	36,128	48,305
Other liabilities	5,701	404	552	186	7,122	13,965
Subordinated liabilities	16		97	2,809	14,334	17,256
	238,704	52,111	24,508	39,776	71,235	426,334

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

The above tables are provided on a contractual basis. The Group s assets and liabilities may be repaid or otherwise mature earlier or later than implied by their contractual terms and readers are, therefore, advised to use caution when using data to evaluate the Group s liquidity position.

The table below analyses financial instrument liabilities of the Group, excluding those arising from insurance and participating investment contracts, on an undiscounted future cash flow basis according to contractual maturity, into relevant maturity groupings based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the over 5 years category.

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
As at 31 December 2009						
Deposits from banks	**46,260**	**15,250**	**19,232**	**1,229**	**892**	**82,863**
Customer deposits	**305,782**	**37,691**	**32,848**	**28,229**	**4,020**	**408,570**
Trading and other financial liabilities at fair value through profit or loss	**14,592**	**3,668**	**6,116**	**3,224**	**1,275**	**28,875**
Debt securities in issue	**40,505**	**38,431**	**34,909**	**117,856**	**25,863**	**257,564**
Liabilities arising from non-participating investment contracts	**46,040**	**4**	**58**	**185**	**186**	**46,473**
Subordinated liabilities	**75**	**1,004**	**1,745**	**15,702**	**35,737**	**54,263**
Total non-derivative financial liabilities	**453,254**	**96,048**	**94,908**	**166,425**	**67,973**	**878,608**
Derivative financial liabilities:						
Gross settled derivatives outflows	**10,707**	**4,844**	**8,309**	**35,793**	**38,505**	**98,158**
Gross settled derivatives inflows	**(6,547)**	**(4,501)**	**(8,165)**	**(35,306)**	**(36,311)**	**(90,830)**
Gross settled derivatives net flows	**4,160**	**343**	**144**	**487**	**2,194**	**7,328**
Net settled derivatives liabilities	**15,107**	**2,180**	**9,395**	**8,721**	**1,777**	**37,180**
Total derivative financial liabilities	**19,267**	**2,523**	**9,539**	**9,208**	**3,971**	**44,508**
As at 31 December 2008						
Deposits from banks	49,620	13,617	1,480	1,986	5	66,708
Customer deposits	151,164	8,258	9,675	2,303	697	172,097
Trading and other financial liabilities at fair value through profit or loss	29,479	1,077	5,295	7,203	3,818	46,872
Debt securities in issue	24,381	26,944	9,192	13,643	3,489	77,649
Liabilities arising from non-participating investment contracts	14,243					14,243
Subordinated liabilities	34	130	563	5,382	20,516	26,625
Total non-derivative financial liabilities	268,921	50,026	26,205	30,517	28,525	404,194
Derivative financial liabilities:						
Gross settled derivatives outflows	5,210	284	4,602	990	1,154	12,240
Gross settled derivatives inflows	(3,136)	(33)	(3,248)			(6,417)
Gross settled derivatives net flows	2,074	251	1,354	990	1,154	5,823
Net settled derivative liabilities	1,824	640	415	350	970	4,199
Total derivative financial liabilities	3,898	891	1,769	1,340	2,124	10,022

Cash flows for undated subordinated liabilities whose terms give the Group the option to redeem at a future date are included within the table on the basis that the Group will exercise its option to redeem.

The principal amount for undated subordinated liabilities with no redemption option is included within the over five years column; interest of approximately £555 million (2008: £412 million) per annum which is payable in respect of those instruments for as long as they remain in issue is not included beyond five years.

Further information on the Group s liquidity exposures is provided on pages 83 to 86.

F-114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54 FINANCIAL RISK MANAGEMENT continued

Liabilities arising from insurance and participating investment contracts are analysed on a behavioural basis, as permitted by IFRS 4, as follows:

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
As at 31 December 2009	**6,263**	**2,303**	**4,796**	**17,890**	**44,927**	**76,179**
As at 31 December 2008	340	927	2,626	7,030	22,869	33,792

The following tables set out the amounts and residual maturities of Lloyds Banking Group s off balance sheet contingent liabilities and commitments.

	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
31 December 2009					
Acceptances	**59**				**59**
Other contingent liabilities	**2,670**	**1,356**	**1,144**	**879**	**6,049**
Total contingent liabilities	**2,729**	**1,356**	**1,144**	**879**	**6,108**
Lending commitments	**82,997**	**20,497**	**18,040**	**6,003**	**127,537**
Other commitments	**921**	**105**	**14**	**6**	**1,046**
Total commitments	**83,918**	**20,602**	**18,054**	**6,009**	**128,583**
Total contingents and commitments	**86,647**	**21,958**	**19,198**	**6,888**	**134,691**

	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
31 December 2008					
Acceptances	49				49
Other contingent liabilities	1,722	1,525	402	1,071	4,720
Total contingent liabilities	1,771	1,525	402	1,071	4,769
Lending commitments	54,155	15,029	8,014	3,625	80,823
Other commitments	572	181	80	99	932
Total commitments	54,727	15,210	8,094	3,724	81,755
Total contingents and commitments	56,498	16,735	8,496	4,795	86,524

55 CONSOLIDATED CASH FLOW STATEMENT

(A) CHANGE IN OPERATING ASSETS

	2009 £m	2008 £m	2007 £m
Change in loans and receivables	**50,935**	(33,717)	(12,123)
Change in derivative financial instruments, trading and other financial assets at fair value through profit or loss	**12,063**	(8,990)	(4,348)
Change in other operating assets	**(1,056)**	(318)	(511)
Change in operating assets	**61,942**	(43,025)	(16,982)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

55 CONSOLIDATED CASH FLOW STATEMENT continued

(B) CHANGE IN OPERATING LIABILITIES

	2009 £m	2008 £m	2007 £m
Change in deposits from banks	**(71,267)**	25,279	2,136
Change in customer deposits	**11,474**	13,088	17,172
Change in debt securities in issue	**(26,578)**	22,401	(2,450)
Change in derivative financial instruments, trading and other liabilities at fair value through profit or loss	**(27,037)**	22,565	3,840
Change in investment contract liabilities	**5,415**	(3,061)	(58)
Change in other operating liabilities	**2,066**	661	901
Change in operating liabilities	**(105,927)**	80,933	21,541

(C) NON-CASH AND OTHER ITEMS

	2009 £m	2008[1] £m	2007[1] £m
Depreciation and amortisation	**2,560**	686	630
Revaluation of investment properties	**214**	1,058	321
Allowance for loan losses	**16,028**	2,876	1,721
Write-off of allowance for loan losses	**(4,090)**	(1,498)	(1,405)
Impairment of available-for-sale financial assets	**602**	130	70
Impairment of goodwill	**240**	100	
Change in insurance contract liabilities	**5,986**	(4,555)	853
Other provision movements	**95**	7	(52)
Net charge in respect of defined benefit schemes	**529**	164	175
Contributions to defined benefit schemes	**(1,867)**	(547)	(452)
Gain on acquisition	**(11,173)**		
Other non-cash items	**(2,806)**	(3,324)	871
Total non-cash items	**6,318**	(4,903)	2,732
Interest expense on subordinated liabilities	**2,550**	896	741
Profit on disposal of businesses			(657)
Other	**39**	(10)	(31)
Total other items	**2,589**	886	53
Non-cash and other items	**8,907**	(4,017)	2,785

[1] Restated for IFRS 2 (Revised).

(D) ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	2009 £m	2008 £m	2007 £m
Cash and balances with central banks	**38,994**	5,008	4,330
Less: mandatory reserve deposits[2]	**(728)**	(545)	(338)
	38,266	4,463	3,992
Loans and advances to banks	**35,361**	40,758	34,845
Less: amounts with a maturity of three months or more	**(7,937)**	(12,461)	(6,946)
	27,424	28,297	27,899
Total cash and cash equivalents	**65,690**	32,760	31,891

[2] Mandatory reserve deposits are held with local central banks in accordance with statutory requirements; these deposits are not available to finance the Group s day-to-day operations.

Included within cash and cash equivalents at 31 December 2009 is £13,323 million (2008: £8,255 million; 2007: £7,426 million) held within the Group s life funds, which is not immediately available for use in the business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

55 CONSOLIDATED CASH FLOW STATEMENT continued

(E) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2009 £m	2008 £m	2007 £m
Share capital (including share premium account and merger reserve):			
At 1 January	**3,952**	3,073	3,038
Issued on acquisition of HBOS	**7,651**		
Transfer to capital redemption reserve	**(26)**		
Cash proceeds from issue of share capital:			
Private placement		760	
Placing and open offer	**4,430**		
Placing and compensatory open offer	**3,905**		
Rights issue	**13,112**		
Other	**41**	119	35
	21,488	879	35
At 31 December	**33,065**	3,952	3,073

	2009 £m	2008 £m	2007 £m
Minority interests:			
At 1 January	**306**	284	352
Exchange and other adjustments	**(19)**	28	(1)
Adjustment on acquisition of HBOS	**5,567**		
Repayment of capital to minority shareholders and extinguishment of minority interests	**(5,035)**	(3)	(80)
Minority share of profit after tax	**126**	26	32
Dividends paid to minority shareholders	**(116)**	(29)	(19)
At 31 December	**829**	306	284

	2009 £m	2008 £m	2007 £m
Subordinated liabilities:			
At 1 January	**17,256**	11,958	12,072
Exchange and other adjustments	**133**	2,658	186
Adjustment on acquisition of HBOS	**20,048**		
Issue of subordinated liabilities	**4,187**	3,021	
Repayments of subordinated liabilities	**(6,897)**	(381)	(300)
At 31 December	**34,727**	17,256	11,958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

55 CONSOLIDATED CASH FLOW STATEMENT continued

(F) ACQUISITION OF GROUP UNDERTAKINGS AND BUSINESSES

	2009 £m	2008 £m	2007 £m
Net assets acquired:			
Cash and balances at central banks	**2,123**		
Derivatives, trading and other financial assets at fair value through profit or loss	**137,889**		
Loans and receivables:			
Loans and advances to customers	**436,839**		
Loans and advances to banks	**15,794**		
Debt securities	**38,408**		
	491,041		
Available-for-sale financial assets	**27,151**		
Investment properties	**3,002**		
Value of in-force business	**3,713**		
Intangible assets	**4,754**		
Tangible fixed assets	**5,707**		
Other assets	**11,398**		
Deposits from banks	**(87,840)**		
Customer deposits	**(224,694)**		
Derivatives, trading and other financial liabilities at fair value through profit or loss	**(62,158)**		
Debt securities in issue	**(185,319)**		
Insurance liabilities	**(36,687)**		
Liabilities arising from non-participating investment contracts	**(28,181)**		
Other liabilities	**(17,316)**		
Retirement benefit obligations	**(358)**		
Subordinated liabilities	**(20,048)**		
Preference shares	**(3,917)**		
Minority interests	**(1,300)**		
	18,960		
Satisfied by:			
Issue of shares	**(7,651)**		
Gain on acquisition	**(11,173)**		
Cash and cash equivalents acquired, net of acquisition costs	**16,341**		
	(2,483)		
Net cash inflow arising from acquisition of HBOS	**16,477**		
Acquisition of and additional investment in joint ventures	**(215)**		
Net cash inflow arising from acquisitions in the year	**16,262**		
Payments to former members of Scottish Widows Fund and Life Assurance Society acquired during 2000	**(35)**	(19)	(8)
Net cash inflow (outflow)	**16,227**	(19)	(8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

55 CONSOLIDATED CASH FLOW STATEMENT continued

(G) DISPOSAL AND CLOSURE OF GROUP UNDERTAKINGS AND BUSINESSES

	2009 £m	2008 £m	2007 £m
Cash and balances at central banks			37
Trading and other financial assets at fair value through profit or loss			10,999
Loans and advances to banks			1,150
Value of in-force business			412
Intangible assets	**170**		
Liabilities arising from insurance contracts and participating investment contracts			(4,349)
Liabilities arising from non-participating investment contracts			(7,283)
Unallocated surplus within insurance businesses			(15)
Other net assets and liabilities	**241**		(95)
	411		856
Profit on sale of businesses			657
Cash and cash equivalents disposed of			(37)
Net cash inflow from disposals	**411**		1,476

56 FUTURE ACCOUNTING DEVELOPMENTS

The following pronouncements will be relevant to the Group but were not effective at 31 December 2009 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the Group. With the exception of IFRS 9 *Financial Instruments: Classification and Measurement*, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements.

IFRS 9 is the initial stage of a project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and will fundamentally change the way in which the Group accounts for financial instruments. Future stages are expected to result in amendments to IFRS 9 to deal with classification and measurement of financial liabilities, amortised cost and impairment and hedge accounting. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements from the replacement of IAS 39.

Pronouncement	Nature of change	IASB effective date
IFRS 3 *Business Combinations*	The revised standard continues to apply the acquisition method to business combinations, however all payments to purchase a business are to be recorded at fair value at the acquisition date, some contingent payments are subsequently remeasured at fair value through income, goodwill may be calculated based on the parent s share of net assets or it may include goodwill related to the minority interest, and all transaction costs are expensed.	Annual periods beginning on or after 1 July 2009.
IAS 27 *Consolidated and Separate Financial Statements*	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control; any remaining interest in an investee is re-measured to fair value in	Annual periods beginning on or after 1 July 2009.

	determining the gain or loss recognised in profit or loss where control over the investee is lost.	
IFRIC 17 *Distributions of Non-cash Assets to Owners*	Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative).	Annual periods beginning on or after 1 July 2009.
Amendment to IAS 39 *Financial Instruments: Recognition and Measurement Eligible Hedged Items*	Clarifies how the principles underlying hedge accounting should be applied in particular situations.	Annual periods beginning on or after 1 July 2009.
Improvements to IFRSs[1] (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process.	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010.
Amendments to IFRS 2 *Share-based Payment Group Cash-settled Share-based Payment Transactions* [1]	Clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, whether or not settled in shares or cash.	Annual periods beginning on or after 1 January 2010.
Amendment to IAS 32 *Financial Instruments: Presentation Classification of Rights Issues*	Requires rights issues denominated in a currency other than the functional currency of the issuer to be classified as equity regardless of the currency in which the exercise price is denominated.	Annual periods beginning on or after 1 February 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

56 FUTURE ACCOUNTING DEVELOPMENTS continued

Pronouncement	Nature of change	IASB effective date
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*[1]	Clarifies that when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor, a gain or loss is recognised in profit or loss representing the difference between the carrying value of the financial liability and the fair value of the equity instruments issued; the fair value of the financial liability is used to measure the gain or loss where the fair value of the equity instruments cannot be reliably measured.	Annual periods beginning on or after 1 July 2010.
IAS 24 *Related Party Disclosures*[1]	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011.
Amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[1]	Applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements and permits such an entity to treat the benefit of such an early payment as an asset.	Annual periods beginning on or after 1 January 2011.
IFRS 9 *Financial Instruments: Classification and Measurement*[1]	Replaces those parts of IAS 39 *Financial Instruments: Recognition and Measurement* relating to the classification and measurement of financial assets. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity s business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity categories in existing IAS 39 will be eliminated.	Annual periods beginning on or after 1 January 2013.

1 At the date of this report, these pronouncements are awaiting EU endorsement.

57 POST BALANCE SHEET EVENTS

As part of the Group s recapitalisation and exit from the GAPS the Group announced on 27 November 2009 that an aggregate amount of £1,484 million would be issued in the form of new ordinary shares of Lloyds Banking Group in exchange for certain existing preference shares, and preferred securities. The conversion price was determined as the five day weighted average price for the five trading days ending on 11 February 2010.

On 18 February 2010, the exchange completed and 3,141 million ordinary shares in Lloyds Banking Group plc were issued as consideration for the redemption of preference shares and preferred securities. In accordance with the Group s accounting policy in respect of debt for equity exchanges, a gain of £85 million was recognised on this exchange transaction.

Explanation of Responses:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

58 PARENT COMPANY DISCLOSURES

A COMPANY INCOME STATEMENT

	2009 **£m**	2008[1] £m	2007[1] £m
Net interest expense	**(367)**	(85)	(46)
Other income	**599**	2,386	1,957
Total income	**232**	2,301	1,911
Operating expenses	**(50)**	(79)	(42)
Profit on ordinary activities before tax	**182**	2,222	1,869
Taxation charge	**121**	(13)	(15)
Profit for the year	**303**	2,209	1,854

[1] Restated for IFRS 2 (Revised)

B COMPANY BALANCE SHEET

	2009 **£m**	2008 £ million
Assets		
Non-current assets:		
Investment in subsidiaries	**32,584**	5,589
Loans to subsidiaries	**7,466**	3,009
Deferred tax assets	**3**	
	40,053	8,598
Current assets:		
Derivative financial instruments	**2,260**	1,297
Other assets	**304**	205
Amounts due from subsidiaries	**1,446**	216
Cash and cash equivalents	**2,837**	1,201
Current tax recoverable	**72**	
	6,919	2,919
Total assets	**46,972**	11,517
Equity and liabilities		
Capital and reserves:		
Share capital	**10,472**	1,513
Share premium account	**14,472**	2,096
Merger reserve	**7,778**	
Capital redemption reserve	**26**	
Retained profits	**2,547**	2,147
Total equity	**35,295**	5,756

Non-current liabilities:		
Subordinated liabilities	**4,205**	2,875
Current liabilities:		
Debt securities in issue	**326**	2,644
Current tax liabilities		116
Other liabilities	**7,146**	126
	7,472	2,886
Total liabilities	**11,677**	5,761
Total equity and liabilities	**46,972**	11,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

58 PARENT COMPANY DISCLOSURES continued

C COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital and premium £ million	Merger reserve £ million	Capital redemption reserve £ million	Retained[1] profits £ million	Total £ million
Balance at 1 January 2007	2,695			2,026	4,721
Total comprehensive income[2]				1,854	1,854
Dividends				(1,957)	(1,957)
Purchase/sale of treasury shares				(19)	(19)
Employee share option schemes:					
Value of employee services				31	31
Proceeds from shares issued	35				35
Balance at 31 December 2007	2,730			1,935	4,665
Total comprehensive income[2]				2,209	2,209
Dividends				(2,042)	(2,042)
Purchase/sale of treasury shares				(14)	(14)
Shares issued via private placement	760				760
Employee share option schemes:					
Value of employee services				59	59
Proceeds from shares issued	119				119
Balance at 31 December 2008	3,609			2,147	5,756
Total comprehensive income[2]				**303**	**303**
Issue of ordinary shares:					
Placing and open offer	**649**	**3,781**			**4,430**
Issued on acquisition of HBOS	**1,944**	**5,707**			**7,651**
Placing and compensatory open offer	**3,905**				**3,905**
Rights issue	**13,112**				**13,112**
Issued to Lloyds TSB Foundations	**41**				**41**
Transfer to merger reserve	**(1,000)**	**1,000**			
Redemption of preference shares	**2,684**	**(2,710)**	**26**		
Purchase/sale of treasury shares				**23**	**23**
Employee share option schemes:					
Value of employee services				**74**	**74**
Balance at 31 December 2009	**24,944**	**7,778**	**26**	**2,547**	**35,295**

1 Restated for IFRS 2 (Revised)

2 Total comprehensive income comprises only the profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

58 PARENT COMPANY DISCLOSURES continued

D COMPANY CASH FLOW STATEMENT

	2009 £ million	2008[1] £ million	2007[1] £ million
Profit before tax	**182**	2,222	1,869
Dividend income	**(354)**	(2,294)	(1,957)
Fair value and exchange adjustments	**(428)**	(68)	10
Change in other assets	**(1,277)**	(166)	103
Change in other liabilities and other items	**7,020**	89	(127)
Tax (paid) received	**(70)**	77	(32)
Net cash provided by (used in) operating activities	**5,073**	(140)	(134)
Cash flows from investing activities			
Costs incurred in respect of the acquisition of HBOS plc	**(138)**		
Additional capital injection into HBOS plc	**(8,500)**		
Additional capital injection into Lloyds TSB Bank plc	**(5,600)**		
Amounts advanced to subsidiaries	**(7,593)**		(1,111)
Redemption of loans to subsidiaries	**1,552**		
Net cash used in investing activities	**(20,279)**		(1,111)
Cash flows from financing activities			
Dividends received from subsidiaries	**354**	2,294	1,957
Dividends paid to equity shareholders		(2,042)	(1,957)
Proceeds from issue of debt securities		1,896	1,770
Repayment of debt securities in issue	**(2,045)**	(1,744)	
Proceeds from issue of subordinated liabilities	**1,000**		
Proceeds from issue of ordinary shares	**21,533**	879	35
Repayment of subordinated liabilities	**(4,000)**		
Net cash provided by financing activities	**16,842**	1,283	90
Change in cash and cash equivalents	**1,636**	1,143	(1,155)
Cash and cash equivalents at beginning of year	**1,201**	58	1,213
Cash and cash equivalents at end of year	**2,837**	1,201	58

1 Restated for IFRS 2 (Revised)

E INTERESTS IN SUBSIDIARIES

The principal subsidiaries, all of which have prepared accounts to 31 December and whose results are included in the consolidated accounts of Lloyds Banking Group plc, are:

	Country of registration/ Incorporation	Percentage of equity share capital and voting rights held	Nature of business

Lloyds TSB Bank plc	England	100%	Banking and financial services
Scottish Widows plc	Scotland	100%	Life assurance
HBOS plc	Scotland	100%	Holding Company
Bank of Scotland plc	Scotland	100%	Banking and financial services
HBOS Insurance & Investment Group Limited	England	100%	Investment holding
St. Andrew s Insurance plc	England	100%	General insurance
Clerical Medical Investment Group Limited	England	100%	Life assurance
Clerical Medical Managed Funds Limited	England	100%	Life assurance

Indirect interest.

The principal area of operation for each of the above subsidiaries is the United Kingdom.

F-123

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GLOSSARY

Term used	US equivalent or brief description.
Accounts	Financial statements.
Allotted	Issued.
Associates	Long term equity investments accounted for by the equity method.
Attributable profit	Net income.
ATM	Automatic Teller Machine.
Balance sheet	Statement of financial position.
Broking	Brokerage.
Building society	A building society is a mutual institution set up to lend money to its members for house purchases. See also Demutualisation .
Called-up share capital	Ordinary shares, issued and fully paid.
Contract hire	Leasing.
Creditors	Payables.
Debtors	Receivables.
Deferred tax	Deferred income tax.
Demutualisation	Process by which a mutual institution is converted into a public limited company.
Depreciation	Amortisation.
Endowment mortgage	An interest only mortgage to be repaid by the proceeds of an endowment insurance policy which is assigned to the lender providing the mortgage. The sum insured, which is payable on maturity or upon the death of the policyholder, is used to repay the mortgage.
Finance lease	Capital lease.
Freehold	Ownership with absolute rights in perpetuity.
Interchange	System allowing customers of different ATM operators to use any ATM that is part of the system.
ISA	Individual Savings Account.
Leasehold	Land or property which is rented from the owner for a specified term under a lease. At the expiry of the term the land or property reverts back to the owner.
Lien	Under UK law, a right to retain possession pending payment.
Life assurance	Life insurance.

Loan capital	Long term debt.
Members	Shareholders.
Memorandum and articles of association	Articles and bylaws.
National Insurance	A form of taxation payable in the UK by employees, employers and the self-employed, used to fund benefits at the national level including state pensions, medical benefits through the National Health Service (NHS), unemployment and maternity. It is part of the UK s national social security system and ultimately controlled by HM Revenue & Customs.
Nominal value	Par value.
Open Ended Investment Company (OEIC)	Mutual fund.
Ordinary shares	Common stock.
Overdraft	A line of credit, contractually repayable on demand unless a fixed term has been agreed, established through a customer s current account.
Preference shares	Preferred stock.

GLOSSARY

Term used	**US equivalent or brief description.**
Premises	Real estate.
Profit attributable to equity shareholders	Net income.
Provisions	Reserves.
Regular premium	Premiums which are payable throughout the duration of a policy or for some shorter fixed period.
Reinsurance	The insuring again by an insurer of the whole or part of a risk that it has already insured with another insurer called a reinsurer.
Retained profits	Retained earnings.
Share capital	Capital stock.
Shareholders equity	Stockholders equity.
Share premium account	Additional paid-in capital.
Shares in issue	Shares outstanding.
Single premium	A premium in relation to an insurance policy payable once at the commencement of the policy.
Tangible fixed assets	Property and equipment.
Undistributable reserves	Restricted surplus.
Write-offs	Charge-offs.

FORM 20-F CROSS-REFERENCE SHEET

Explanation of Responses:

FORM 20-F CROSS-REFERENCE SHEET

	Form 20 F Item Number and Caption	Location	Page
Item 8.	Financial Information		
	A. Consolidated statements and other financial information	Consolidated financial statements	F-1
		Operating and financial review and prospects	11
		Business Legal actions	7
		Dividends	140
	B. Significant changes	Business Recent developments	9
Item 9.	The Offer and Listing		
	A. Offer and listing details	Listing information	137
	B. Plan of distribution	Not applicable.	
	C. Markets	Listing information	137
	D. Selling shareholders	Not applicable.	
	E. Dilution	Not applicable.	
	F. Expenses of the issue	Not applicable.	
Item 10.	Additional Information		
	A. Share capital	Not applicable.	
	B. Memorandum and articles of association	Memorandum and articles of association of Lloyds Banking Group plc	141
	C. Material contracts	Business Material contracts .	5
	D. Exchange controls	Exchange controls	145
	E. Taxation	Taxation	146
	F. Dividends and paying agents	Not applicable.	
	G. Statements by experts	Not applicable.	
	H. Documents on display	Where you can find more information	149
	I. Subsidiary information	Lloyds Banking Group structure	163
Item 11.	Quantitative and Qualitative Disclosures about Market Risk	Operating and financial review and prospects Risk management	57
		Operating and financial review and prospects Risk management Market risk	77
		Notes to the consolidated financial statements note 54 Financial risk management	F-101
Item 12.	Description of Securities Other than Equity Securities		
	A. Debt securities	Not applicable.	
	B. Warrants and rights	Not applicable.	
	C. Other securities	Not applicable.	
	D. American Depositary Shares	Listing information ADR fees	139
Part II			
Item 13.	Defaults, Dividends Arrearages and Delinquencies	Not applicable.	
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	Not applicable.	
Item 15.	Controls and Procedures	Corporate governance	123
Item 16.	[Reserved by the Securities and Exchange Commission]		
	A. Audit committee financial expert	Corporate governance The board and its committees Audit committee	124
	B. Code of ethics	Management and employees Employees	103
	C. Principal accountant fees and services	Corporate governance The board and its committees Audit committee	124
		Notes to the consolidated financial statements note 11 Operating expenses	F 35
	D. Exemptions from the listing standards for audit committees	Not applicable.	
	E. Purchases of equity securities by the issuer and affiliated purchasers	Not applicable.	
	F. Change in registrant s certifying accountant	Not applicable.	
	G. Corporate governance	Corporate governance Statement on US corporate governance standards	123
Part III			
Item 17.	Financial statements	Not applicable.	

Explanation of Responses:

EXHIBIT INDEX

1. Memorandum and articles of association of Lloyds Banking Group plc

2. Neither Lloyds Banking Group plc nor any subsidiary is party to any single long-term debt instrument pursuant to which a total amount of securities exceeding 10 per cent of the Group s total assets (on a consolidated basis) is authorised to be issued. Lloyds Banking Group plc hereby agrees to furnish to the Securities and Exchange Commission (the Commission), upon its request, a copy of any instrument defining the rights of holders of its long-term debt or the rights of holders of the long-term debt issued by it or any subsidiary for which consolidated or unconsolidated financial statements are required to be filed with the Commission.

4. (a)
   - (i) Placing and Open Offer Agreement dated 13 October 2008 between Lloyds Banking Group plc, The Commissioners of Her Majesty s Treasury and the joint sponsors and joint bookrunners named therein
   - (ii) Preference Share Subscription Agreement dated 13 October 2008 between Lloyds Banking Group plc and The Commissioners of Her Majesty s Treasury
   - (iii) Placing and Open Offer Agreement dated 13 October 2008 between HBOS plc, The Commissioners of Her Majesty s Treasury and the joint sponsors and joint bookrunners named therein
   - (iv) Preference Share Subscription Agreement dated 13 October 2008 between HBOS plc and The Commissioners of Her Majesty s Treasury
   - (v) Placing and Open Offer Agreement dated 7 March 2009 between Lloyds Banking Group plc and The Commissioners of Her Majesty s Treasury (as amended and restated on 20 March 2009 between Lloyds Banking Group plc, The Commissioners of Her Majesty s Treasury, Citigroup Global Markets U.K. Equity Limited, J.P. Morgan Cazenove Limited and UBS Limited and further amended and restated between the same parties on 18 May 2009)
   - (vi) Registration Rights Agreement dated 12 January 2009 between Lloyds Banking Group plc and The Commissioners of Her Majesty s Treasury (as amended with effect from 11 June 2009)
   - (vii) Resale Rights Agreement effective 11 June 2009 between Lloyds Banking Group plc and The Commissioners of Her Majesty s Treasury
   - (viii) Lending Commitments Deed by Lloyds Banking Group plc in favour of Her Majesty s Treasury dated 6 March 2009 (as amended on 23 March 2010)[2]
   - (ix) Deed of Withdrawal dated 3 November 2009 between Lloyds Banking Group plc and The Lords Commissioners of Her Majesty s Treasury[2]
   - (x) Undertaking to Subscribe dated 3 November 2009 between Lloyds Banking Group plc and The Lords Commissioners of Her Majesty s Treasury
   - (xi) Costs Reimbursement Deed dated 2 November 2009 between Lloyds Banking Group plc and The Lords Commissioners of Her Majesty s Treasury
   - (xii) Rights Issue Underwriting Agreement dated 3 November 2009 between Lloyds Banking Group plc, the banks, the senior co-lead managers, the co-lead managers and the co-bookrunner (all as named therein)
   - (xiii) Top Up Issues Underwriting Agreement dated 3 November 2009 between Lloyds Banking Group plc, LBG Capital No.2 plc, Lloyds TSB Bank plc and the joint bookrunners (as named therein)

4. (b)
   - (i) Service agreement dated 21 January 2009 between Lloyds TSB Bank plc and Helen A. Weir
   - (ii) Service agreement dated 22 January 2009 between Lloyds TSB Bank plc and J. Eric Daniels
   - (iii) Service agreement dated 23 January 2009 between Lloyds TSB Bank plc and Archie G. Kane
   - (iv) Service agreement dated 26 January 2009 between Lloyds TSB Bank plc and Tim J.W. Tookey
   - (v) Service agreement dated 9 February 2009 between Lloyds TSB Bank plc and G. Truett Tate
   - (vi) Letter of appointment dated 18 November 2004 between Lloyds Banking Group plc and Sir Julian Horn-Smith
   - (vii) Letter of appointment dated 14 September 2005 between Lloyds Banking Group plc and Lord Leitch
   - (viii) Letter of appointment dated 7 August 2008 between Lloyds Banking Group plc and Martin A. Scicluna

(ix) Letter of appointment dated 23 February 2009 between Lloyds Banking Group plc and T. Timothy Ryan

(x) Letter of appointment dated 23 February 2009 between Lloyds Banking Group plc and Anthony Watson

(xi) Letter of appointment dated 27 July 2009 between Lloyds Banking Group plc and Sir Winfried Bischoff

(xii) Letter of appointment dated 12 February 2010 between Lloyds Banking Group plc and David Roberts

(xiii) Letter of appointment dated 19 February 2010 between Lloyds Banking Group plc and Glen Moreno

8.1 List of subsidiaries, their jurisdiction of incorporation and the names under which they conduct business

12.1 Certification of J. Eric Daniels filed pursuant to 17 CFR 240.13a-14(a) and 15 U.S.C. 7241

12.2 Certification of Tim J. W. Tookey filed pursuant to 17 CFR 240.13a-14(a) and 15 U.S.C. 7241

13.1 Certification of J. Eric Daniels and Tim J. W. Tookey furnished pursuant to 17 CFR 240.13a-14(b) and 18 U.S.C. 1350

15.1 Consent of PricewaterhouseCoopers LLP

* Previously filed with the SEC, together with Lloyds Banking Group s registration statement, on 25 September 2001

Previously filed with the SEC on Lloyds Banking Group s Form 20 F filed 6 June 2006

º Previously filed with the SEC on Lloyds Banking Group s Form 20 F filed 5 June 2008

Previously filed with the SEC on Lloyds Banking Group s Form 20 F filed 7 May 2009

² Pursuant to a request for confidential treatment filed with the SEC, the confidential portions of this exhibit have been omitted and filed separately with the SEC.

The exhibits shown above are listed according to the number assigned to them by the Form 20 F.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report.

LLOYDS BANKING
GROUP plc

By:	/s/ T Tookey
Name:	Tim J W Tookey
Title:	Group Finance Director

Dated: 13 May 2010

170