LLOYDS TSB GROUP PLC
Form 6-K
July 30, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

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

30 July 2008

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

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25 Gresham Street
London
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United Kingdom

(Address of principal executive offices)

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

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

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

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

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

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 30 July 2008
re: Interim Results

2008 Interim Results

News release

BASIS OF PRESENTATION

In order to provide a clearer representation of the Group's underlying business performance, the results have been presented on a continuing businesses basis. This excludes the following items:

- insurance and policyholder interests volatility (page 49, note 9)
- a provision in respect of certain historic US dollar payments (page 44, note 6)
- the results of discontinued businesses (page 56, note 20)
- profit on sale of businesses (page 42, note 5), and
- the settlement of overdraft claims.

A reconciliation of this basis of presentation to the statutory profit before tax is shown on page 7. In addition, certain commentaries also separately analyse the impact of recent market dislocation on the Group's Corporate Markets business ('market dislocation').

Unless otherwise stated the analysis throughout this document compares the half-year ended 30 June 2008 to the half-year ended 30 June 2007.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds TSB Group, its current goals and expectations relating to its future financial condition and performance. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The Group's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks such as interest rate risk and exchange rate risk in its banking business and equity risk in its insurance businesses, changing demographic trends, unexpected changes to regulation, the policies and actions of governmental and regulatory authorities in the UK or jurisdictions outside the UK, including other European countries and the US, exposure to legal proceedings or complaints, changes in customer preferences, competition and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of such factors. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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KEY HIGHLIGHTS

"The first half of 2008 has been a period of considerable turbulence for the financial services sector and this has been compounded by the marked slowdown in the UK economy as a whole. Against this backdrop, Lloyds TSB continued to deliver good growth momentum in all its core businesses and is well positioned for a lower growth environment.

Given this strong performance and our confidence in the Group's future earnings performance, the board has decided to increase the 2008 interim dividend by 2 per cent to 11.4 pence per share. This increase demonstrates the strength of the Group's business model, balanced with a level of caution on the outlook for the UK economy."

Sir Victor Blank
Chairman

- **Good underlying profit momentum.** Profit before tax, on a continuing businesses basis, decreased 19 per cent to £1,573 million reflecting the impact of £585 million of market dislocation. Excluding this impact, profit before tax increased by 11 per cent to £2,158 million.

- **Statutory profit before tax reduced by** 70 per cent to £599 million. A strong underlying business performance was offset, largely by the impact of market dislocation and adverse volatility relating to the Group's insurance businesses (page 7).

- **Strong income growth.** Income, excluding market dislocation, grew by 9 per cent reflecting strong revenue growth from the Group's relationship banking businesses .

- **Excellent cost management.** The Group's cost:inco me ratio, excluding market dislocation, improved by 2 percentage points to 46.6 per cent, reflecting a 4 percentage point difference between income growth and cost growth.

- **Satisfactory credit quality.** Retail impairment charge as a percentage of average lending lower than in the first half of 2007. Corporate asset quality also remains good.

- **Strong liquidity and funding position maintained** throughout the recent turbulence in global financial markets.

- **Robust capital ratios maintained,** with tier 1 capital ratio of 8.6 per cent and core tier 1 ratio of 6.2 per cent .

- **Interim dividend increased by 2 per cent,** demonstrating the strength of the Group's business model, balanced with a level of caution on the outlook for the UK economy.

GROUP CHIEF EXECUTIVE'S STATEMENT

In a period of considerable turbulence for the financial services sector and a slowdown in the UK economy, Lloyds TSB has delivered another strong underlying performance for the first half of 2008. Our results for this period illustrate the strength of our relationship-based strategy and through the cycle business model.

On a statutory basis, profit before tax for the first half of 2008 was £599 million as our strong underlying performance was offset, largely by the impact of market dislocation and volatility relating to our insurance businesses. On a continuing businesses basis, and excluding the impact of market dislocation, which we believe is more reflective of the performance of the Group, profit before tax increased by 11 per cent to £2,158 million. This is a very good performance, delivered in a more challenging environment, and highlights the momentum the Group has achieved across our businesses.

A strong track record of delivery

Our first half results build on a strong track record of delivery built up over the last five years as we have consistently executed against our strategy to attract more customers to our franchise businesses, to deepen relationships with these customers over time, to deliver sustainable cost and productivity improvements in our operations and to make the most effective use of all our resources.

Excluding market dislocation, each of our three divisions has performed strongly, which has allowed us to further increase market share and profitability in our key product areas.

The successful delivery of our strategy, combined with trusted brands, a prudent approach to risk and a reputation for providing products and services that deliver value to our customers, underpins the Lloyds TSB model and delivers better results for our shareholders.

Continued strong growth momentum

The Group showed continued good momentum during the period with income and profit before tax, excluding market dislocation, up across all three divisions and the Group as a whole. All divisions and the Group had wide positive jaws (the rate of income growth exceeding that of cost growth) and this led to a further improvement in our cost:income ratio to 46.6 per cent, two percentage points lower than in the same period last year.

Looking forward, we expect a lower level of growth in the UK economy which will impact our business. However, our relationship based business model, our through the cycle approach to risk and the efficiency of our operation leave us well placed to weather the lower growth environment and indeed continue to grow the business.

Our robust capital and strong liquidity position enabled us to continue the strong momentum built up over the last few years. During the first half of 2008 we captured market share in many of our key relationship products and we have done so at higher margins, whilst maintaining good risk criteria.

In the **Retail Bank** we saw excellent new business flows and achieved first place in the league tables for current accounts, added value accounts and personal loans. Reflecting the strength of our business, we captured a market share of 24.4 per cent of net new lending in the mortgage market, increasing Group balances to £109 billion, and did so at significantly increased new business margins and at an average new loan-to -value ratio of 63 per cent. We opened nearly half a million current accounts during the half-year, the foundation of the customer relationship in our retail business, and increased our average additional cross-sell on account opening to 1.12 products per customer, up from 0.91 products per customer last year.

In the credit card business we continued to see a strong uptake in our Lloyds TSB AirMiles Duo account which now has 1.4 million account holders and is the fastest growing credit card brand in the UK. Over recent years we have placed a strong focus on increasing deposits and our Wealth Management business has performed particularly well with deposits up 25 per cent, closely followed by bank savings, up 19 per cent, over the last 12 months. Across the Retail Bank, deposit balances showed strong growth, up 10 per cent on last year to £85.6 billion.

Costs in the retail bank continue to be well managed with our cost:income ratio falling to 45.1 per cent, down from 47.0 per cent, resulting in strong positive jaws and double-digit profit before tax growth.

Insurance and Investments, a core component of Lloyds TSB's customer relationship based business model, put in a solid performance despite lower sales of equity based savings and investment products. Profit before tax was up 15 per cent in Scottish Widows driven by an increase in new business profit, primarily reflecting an improved mix in protection sales towards higher margin products and an increase in the proportion of insurance based products, with strong sales of both corporate and individual pensions. Growth was driven through the more profitable bancassurance channel with sales up 8 per cent, resulting in an overall increase in market share for Scottish Widows.

General Insurance sales continued to grow both in the retail channel and through corporate partnering relationships and the launch of Essential Business Insurance, a key product for small business customers. Improved profitability was due to lower flood claims, improved claims processes and good cost disciplines.

Overall divisional costs decreased year on year by 2 per cent leading to wide positive jaws, a lower cost:income ratio of 41.8 per cent and double-digit profit before tax growth.

In **Wholesale and International Banking**, profit before tax was down 52 per cent as excellent new business flows and an improved cross sales performance were more than offset by the impact of market dislocation. Whilst we cannot ignore the impact of market dislocation on our business, we believe that it is also informative to look at the underlying performance of the business, excluding market dislocation. On this basis profit before tax was up 22 per cent.

In our Corporate business we saw a significant uplift in volumes, resulting from our investment in people and the range of products available. With a premium on the availability of credit we were able to secure a higher proportion of lead manager roles during the period and a higher overall market share. This in turn led to increased cross sales enabling us to increase our share of wallet, at higher margins whilst maintaining our conservative risk profile.

In Commercial Banking we continued our success, with strong growth in business volumes and improvements in operating efficiencies. Growth was spread across both lending and deposit balances, with an increased focus on the more valuable higher turnover businesses where the opportunity for cross sales is greater. Market share increases were achieved with customers across key target markets, reflecting good progress in attracting customers 'switching' from other financial services providers. Asset quality in the Commercial portfolio remains strong as a result of our 'through the cycle' risk policy, and our continued move towards secured lending which now represents approximately 87 per cent of the portfolio.

The period saw increased investment across the wholesale business to increase the number of front line relationship managers and to provide a more comprehensive product suite for our customers. Whilst this led to an 8 per cent increase in costs, the higher underlying income resulted in wide positive jaws of 10 percentage points and an improved cost:income ratio of 46.4 per cent versus 51.0 per cent last year.

Investing for growth

Investment to support our future growth continues to be a priority for the business. Income is reinvested in the business each year across people, systems, infrastructure and marketing to support new products and services and to drive cross sales income.

Key themes for investment include improving access for customers through initiatives such as our new store design and the upgrading of our internet platform, and providing enhanced products and services such as new flexible insurance products and the 'your finances' integrated retail sales capability, which increases the effectiveness of our sales teams in front of the customer. Whilst a great deal of our investment is focused towards new products and services, investment is also used to deliver sustained cost and productivity improvements through flexible resourcing, lean processing and procurement initiatives. We remain on target to deliver £250 million of net cost savings from our productivity programme in 2008 with £118 million delivered in the first half.

Outlook

While we continue to deliver a strong operating and financial performance, there is no doubt that we are entering a period of lower growth for the UK economy. Bank deleveraging and declining property valuations have impacted consumer confidence and contributed to lower growth. The business plans that we adopted last year were based on our assumption that the economy would slow in 2008, and were consistent with our business model which takes a prudent, through the cycle approach to risk. As a result, we have not needed to materially revise our strategy in light of the recent economic trends.

Our central forecast for UK economic growth this year remains at the 1.6 per cent we quoted in our 2007 full year results. Our business plans also recognise the potential risk of a more severe economic downturn, and recent events suggest that such a risk has increased. However, we believe that our customer relationship focus, solid cost control and robust risk policies will support continued strong financial performance and good business growth were this to occur.

Well positioned for a lower growth environment

As we move into more uncertain times, our asset portfolios are in good shape, given we have limited exposure to some of the more fragile areas of the economy, such as residential buy-to-let and leveraged loans. In commercial property, our exposures are well managed with strong cash flow coverage and conservative loan-to -value ratios. Whilst we expect arrears and impairments to increase, we believe the impact on the business is manageable. Actions taken include continuous management of our credit criteria, improved and increased collections capability and a move towards more secured lending, whilst also focusing our lending to our franchise customers, where we have a superior understanding of the risk profile.

Our approach to risk has meant that we remain well positioned to capture growth opportunities at a time when others have pulled back from the market. As a result, we have been able to capture market share in a number of key areas and at higher margins without impacting the overall quality of our business.

Capital and dividend

During the first half of 2008, the Group has continued to make progress in delivering strong underlying revenue growth, whilst increasing room for investment in building the business, and this has been supported by strong cost disciplines. Our capital management is strong and our capital ratios remain robust and are sufficient to support our current organic growth plans.

As a result of its confidence in the Group's future performance, the board has decided to increase the 2008 interim dividend by 2 per cent to 11.4p per share. This increase demonstrates the strength of the Group's business model, balanced with a level of caution reflecting the slowing UK economic environment.

People

Underpinning these positive results and the progress made against our business objectives are our people. I would like to thank them for their continued dedication, professionalism and commitment which makes such a big difference to our business performance, and gives me confidence that we will continue to deliver strong operating and financial results in the months and years ahead.

J Eric Daniels

Group Chief Executive

SUMMARY OF RESULTS

	Half-year to 30 June 2008	Half-year to 30 June 2007	*Change*	Half-year to 31 Dec 2007
	£m	£m	*%*	£m
Results – statutory				
Total income, net of insurance claims	**4,628**	5,590	***(17)***	5,116
Operating expenses	**2,930**	2,760	***(6)***	2,807
Trading surplus	**1,698**	2,830	***(40)***	2,309
Impairment	**1,099**	837	***(31)***	959
Profit before tax	**599**	1,993	***(70)***	2,007
Profit attributable to equity shareholders	**576**	1,540	***(63)***	1,749
Economic profit (page 57, note 21)	**58**	1,027		1,211
Earnings per share (page 57, note 22)	**10.2p**	27.3p	***(63)***	31.0p
Post-tax return on average shareholders' equity	**10.0%**	27.0%		29.3%
Proposed dividend per share (page 63, note 26)	**11.4p**	11.2p	***2***	24.7p
Results – continuing businesses basis				
Total income, net of insurance claims				
- Before impact of market dislocation	**5,899**	5,392	***9***	5,678
- Impact of market dislocation	**(477)**	-		(188)
	5,422	5,392	***1***	5,490
Operating expenses	**2,750**	2,618	***(5)***	2,712
Trading surplus				
- Before impact of market dislocation	**3,149**	2,774	***14***	2,966
- Impact of market dislocation	**(477)**	-		(188)
	2,672	2,774	***(4)***	2,778
Impairment				
- Before impact of market dislocation	**991**	837	***(18)***	867
- Impact of market dislocation	**108**	-		92
	1,099	837	***(31)***	959
Profit before tax				
- Before impact of market dislocation	**2,158**	1,937	***11***	2,099
- Impact of market dislocation	**(585)**	-		(280)
	1,573	1,937	***(19)***	1,819
Profit attributable to equity shareholders	**1,109**	1,454	***(24)***	1,285
Economic profit	**613**	951	***(36)***	774
Earnings per share	**19.6p**	25.8p	***(24)***	22.8p
Post-tax return on average shareholders' equity	**20.1 %**	26.0%		22.6%

PROFIT ANALYSIS BY DIVISION

	Half-year to 30 June 2008 £m	Half-year to 30 June 2007† £m	***Change*** *%*	Half-year to 31 Dec 2007† £m
UK Retail Banking (page 15)	**911**	793	***15***	927
Insurance and Investments (page 19)	**431**	330	***31***	418
Wholesale and International Banking (page 25)				
- Before impact of market dislocation	**960**	789	***22***	791
- Impact of market dislocation	**(585)**	-		(280)
	375	789	***(52)***	511
Central group items	**(144)**	25		(3 7)
Profit before tax - continuing businesses				
- Before impact of market dislocation	**2,158**	1,937	***11***	2,099
- Impact of market dislocation	**(585)**	-		(280)
	1,573	1,937	***(19)***	1,819
Volatility (page 49, note 9)				
- Insurance	**(505)**	9		(286)
- Policyholder interests (page 50 , note 9)	**(289)**	(63)		(159)
Discontinued businesses (page 56, note 20)	**-**	146		16
Profit on sale of businesses (page 42, note 5)	**-**	-		657
Provision in respect of certain historic US dollar payments	**(180)**	-		-
Settlement of overdraft claims	**-**	(36)		(40)
Profit before tax - statutory	**599**	1,993	***(70)***	2,007
Taxation (page 44, note 7)	**(11)**	(433)		(246)
Profit for the period	**588**	1,560	***(62)***	1,761
Profit attributable to minority interests	**12**	20		12
Profit attributable to equity shareholders	**576**	1,540	***(63)***	1,749
Earnings per share (page 57, note 22)	**10.2p**	27.3p	***(63)***	31.0p

†Segmental analyses for 2007 have been restated as explained in note 2.

KEY BALANCE SHEET MEASURES

	30 June 2008 £m	30 June 2007 £m	***Change*** *%*	31 Dec 2007 £m
Balance sheet				
Shareholders' equity	**10,797**	11,373	***(5)***	12,141
Net assets per share	**187p**	199p	***(6)***	212p
Total assets	**367,782**	353,095	***4***	353,346
Risk-weighted assets (Basel II basis)	**153,873**	n/a		142,567

Loans and advances to customers	**229,621**	200,181	***15***	209,814
Customer deposits	**162,129**	144,654	***12***	156,555
Risk asset ratios (Basel II basis)				
Total capital	**11.3%**	n/a		11.0%
Tier 1 capital	**8.6%**	n/a		9.5%
Core tier 1 capital	**6.2%**	n/a		7.4%

GROUP FINANCE DIRECTOR'S INTERIM MANAGEMENT REPORT

In the first half of 2008 the Group delivered a resilient performance against the backdrop of significant turbulence in global financial markets and a marked slowdown in the UK economic environment. Statutory profit attributable to equity shareholders however decreased by 63 per cent to £576 million and earnings per share decreased by 63 per cent to 10.2p, reflecting the impact of the recent market dislocation and insurance volatility, caused by lower equity markets and wider credit spreads in fixed income markets. Profit before tax fell by 70 per cent to £599 million.

To enable meaningful comparisons to be made with the first half of 2007, the income statement commentaries below are on a continuing businesses basis (see 'basis of presentation'). In addition, certain commentaries also exclude the impact of market dislocation in our Corporate Markets business.

Building strong customer relationships

Lloyds TSB's strategy to build strong customer franchises and grow our business by realising the considerable potential within those franchises continues to deliver strong results. We have continued to extend the reach and depth of our customer relationships, achieving good sales growth, whilst also improving productivity and efficiency. The underlying performance of the business, excluding the impact of market dislocation, remains strong with revenue growth remaining well ahead of cost growth.

Like many other financial institutions, the Group's Corporate Markets business has been affected by the recent market dislocation; however, the relationship focus of our strategy has meant that the impact on the Group's profit before tax was limited to £585 million in the first half of 2008 (£477 million reduction in income; £108 million increase in impairment). This largely reflects the impact of continuing mark-to-market adjustments in certain legacy trading portfolios, resulting from the marketwide repricing of liquidity and credit, together with the write-down of a number of Asset Backed Securities and Structured Investment Vehicle Capital Notes. Notably, even after fully absorbing this impact, Wholesale and International Banking profit before tax of £375 million was down only 52 per cent from last year's record first half performance.

The Group continues to maintain a strong funding and liquidity profile and has continued to fund at market leading rates, with the overall margin impact of funding the Group's balance sheet remaining broadly unchanged. However, the Group has benefited from improvements in a number of individual product margins, particularly in new mortgages and corporate lending. The Group's core relationship businesses have also benefited from our strong credit ratings, relative balance sheet strength and funding capability and this has resulted in increased opportunities over the last six months to grow the Group's customer franchises.

Continued momentum throughout the business

Profit before tax, excluding the impact of the £585 million market dislocation, increased by £221 million, or 11 per cent, to £2,158 million, underpinned by good relationship banking momentum. On this basis, revenue growth of 9 per cent exceeded cost growth of 5 per cent, with each division delivering stronger revenue growth than cost growth.

Good income growth

Overall income growth of 9 per cent, excluding the impact of market dislocation, reflects good progress in delivering our divisional strategies. We have increased income from both new and existing customers, with strong growth in both assets and liabilities, as well as an increase in fee-related income.

Group net interest income, excluding insurance grossing (page 13), increased by £632 million, or 23 per cent, to £3,329 million. Over the last 12 months, total assets increased by 4 per cent to £368 billion, with a 15 per cent increase in loans and advances to customers, reflecting strong levels of customer lending growth in Commercial Banking, Corporate Markets and mortgages. Customer deposits increased by 12 per cent to £162 billion, supported by strong growth in savings balances in the retail bank, where bank savings increased by 19 per cent and wealth management balances by 25 per cent. Customer deposits in our Corporate Markets, Commercial and International businesses increased by 16 per cent.

The net interest margin from our banking businesses (page 51, note 11) increased by 8 basis points, to 2.82 per cent , as improved product margins offset an adverse mix effect. Overall product margins were 13 basis points higher, reflecting stronger new business product margins in the mortgage and corporate businesses. Stronger growth in finer margin mortgages and flat wider margin unsecured consumer lending contributed to the negative mix effect which reduced the overall margin by 6 basis points. Overall central funding costs not reflected in product margins were broadly stable, improving the margin by 1 basis point .

Other income, net of insurance claims and excluding insurance grossing, decreased by £604 million, or 23 per cent, to £2,073 million , largely reflecting the impact of market dislocation. In the retail bank, higher fees and commissions receivable as a result of good growth in added value current accounts and card services were offset by lower creditor insurance commissions and the impact of changes in product design leading to a greater proportion of earnings being recognised as net interest income rather than fee income. In addition, good levels of growth were achieved in fee based product sales to commercial banking customers.

Excellent cost management

The Group continues to invest in improving processing efficiency, resulting in continued tight control over costs. During the first half of 2008, operating expenses increased by 5 per cent to £2,750 million. Over the last 12 months, staff numbers have fallen by 953 (2 per cent) to 58,493, largely as a result of further efficiency improvements in back-office processing centres. These improvements in operational effectiveness have resulted in a further reduction in the Group cost:income ratio, excluding market dislocation, from 48.6 per cent to 46.6 per cent . The Group's programme of productivity initiatives has continued to deliver significant benefits, improving underlying cost efficiency and creating greater headroom for further investment in the business, and the Group remains on track to deliver its expected net cost benefits of approximately £250 million in 2008 from this programme.

Overall credit quality remains satisfactory

In UK Retail Banking, impairment losses increased by £28 million, or 4 per cent, to £655 million , largely reflecting the impact of lower house prices on the mortgage impairment charge. In terms of unsecured lending, our asset quality remains good and our current arrears performance remains satisfactory. As a result, we do not expect the retail unsecured impairment charge in 2008 to significantly exceed the unsecured impairment charge in 2007. However, in the context of the uncertain UK economic environment and the potential for increased consumer arrears and insolvencies, we are continuing to enhance our underwriting, collections and fraud prevention procedures.

The asset quality of our mortgage portfolio has remained excellent, with arrears levels up 3 per cent compared to a year ago. However, the current difficult economic environment has eroded the improved arrears performance of the latter part of 2007 and means that arrears levels have increased slightly over the last six months, a trend that is expected to continue. The fall in the house price index during the first half has however led to an increase of £36 million in the house price index related charge for impairments in the first half of the year. Looking forward, our view is for a fall in the house price index of between 10 and 15 per cent during 2008. Were the index to fall by, for example, 12.5 per cent this year, we might expect the house price index related impact on the impairment charge in the second half of 2008 to be approximately £100 million.

The Wholesale and International Banking charge for impairment losses increased by £234 million to £444 million, including a £108 million impairment charge relating to the impact of market dislocation in the first half of 2008. The remaining charge reflects a modest increase in the level of impairments as a result of the economic slowdown in the UK, the impact of recent growth rates in Corporate lending and higher impairment from provisions against a small number of specific situations.

Overall, impairment losses increased by 31 per cent to £1,099 million. Our impairment charge on loans and advances expressed as an annualised percentage of average lending was 0.89 per cent , excluding the impact of market dislocation, compared to 0.82 per cent in the first half of 2007 (excluding the impact of the 2007 Finance Act) (page 54, note 16). Impaired assets increased by 21 per cent to £6,097 million and now represent 2.6 per cent of total lending, up from 2.5 per cent at 30 June 2007.

Limited exposure to assets affected by current capital markets uncertainties

Whilst no bank has been immune to the impact of the recent turbulence in global financial markets, Lloyds TSB's high quality business model means that the Group's Corporate Markets business has relatively limited exposure to assets affected by current capital markets uncertainties (page 40, note 4).

US sub-prime Asset Backed Securities (ABS) and ABS Collateralised Debt Obligations (CDOs)

Lloyds TSB has no direct exposure to US sub-prime ABS and limited indirect exposure through ABS CDOs. During the first half of 2008, the market value of our holdings in ABS CDOs reduced and, as a result, the Group has taken an income statement charge of £62 million, leaving a residual investment of £70 million, net of hedges. The Group's residual investment of £70 million is stated net of credit default swap (CDS) protection totalling £297 million purchased from a monoline financial guarantor. At 30 June 2008, the underlying assets supported by this protection had fallen in value. During the first half of 2008, the Group has written down the value of this protection by £170 million, following a rating agency downgrade to the financial guarantor and consequent increased protection costs, leaving a reliance on the CDS protection totalling £121 million. The Group has no exposure to mezzanine ABS CDOs. In addition, we have £1,382 million (31 December 2007: £1,861 million) of ABS CDOs which are fully cash collateralised by major global financial institutions.

Structured Investment Vehicles (SIVs)

During the first half of 2008 the Group wrote down the value of its SIV assets by £46 million, leaving a residual exposure to SIV Capital Notes at 30 June 200 8 of £35 million. Additionally, at 30 June 2008 the Group had commercial paper back up liquidity facilities totalling £85 million (31 December 2007: £370 million), of which

£22 million had been drawn. During July 2008, these liquidity facilities were reduced to £22 million, fully drawn. The Group has no SIV-Lite exposure.

Scottish Widows has no exposure to US sub-prime ABS either directly or indirectly through CDOs. At 30 June 2008, the Group's exposure to short-dated SIV commercial paper through Scottish Widows totalled £7 million. All of Scottish Widows' short-dated SIV instruments that have matured over the last 12 months have done so at expected value.

Trading portfolio

In the first half of 2008, Corporate Markets also saw a reduction in profit before tax of £307 million as a result of the impact of mark-to-market adjustments in certain legacy trading portfolios, to reflect the marketwide repricing of liquidity and credit. At 30 June 2008 the trading portfolio contained £173 million of indirect exposure to US sub-prime mortgages and ABS CDOs. This super senior exposure is protected by note subordination.

Available-for-sale assets

At 30 June 2008, the Group's portfolio of available-for-sale assets totalled £25,032 million (31 December 2007: £20,196 million) of which £24,414 million (31 December 2007: £19,662 million) were held in Corporate Markets. A significant proportion of these Corporate Markets assets (£7,645 m illion) related to the ABS in Cancara, our hybrid Asset Backed Commercial Paper conduit. The residual assets comprised £3,231 m illion Student Loan ABS, predominantly guaranteed by the US Government, £8,342 m illion government bond and short-dated bank commercial paper and certificates of deposit and £5,196 million major bank senior paper and high quality ABS. Although the Group expects to hold its available-for-sale assets until maturity, temporary mark-to-market adjustments are required to be taken through reserves. During the first half of 2008, a net £630 million reserves adjustment, which has no impact on the Group's capital ratios, has been made to reflect a reduction in the value of available-for-sale assets.

Total assets in Cancara were £11,653 m illion at 30 June 2008, comprising £7,645 million ABS and £4,008 million client receivables transactions. Cancara, which is fully consolidated in the Group's accounts, is managed in a very conservative manner, and this is demonstrated by the quality and ratings stability of its underlying asset portfolio. At 30 June 200 8, the ABS bonds in Cancara were 92 per cent Aaa/AAA rated by Moody's and Standard & Poor's respectively, and there was no exposure either directly or indirectly to sub-prime US mortgages within the ABS portfolio. At 30 June 200 8 the client receivables portfolio included no US sub-prime mortgage exposure.

Insurance volatility

In the first half of 2008, high levels of volatility and wider credit spreads in fixed income markets and significantly lower equity markets contributed to adverse volatility of £505 million relating to the insurance business. This principally reflects a reduction in the market consistent valuation of the annuity portfolio, driven by the continued widening of corporate bond spreads in the first half of 2008, and lower expected future shareholder income from contracts where the underlying policyholder investments are in equities.

Provision relating to certain historic US dollar payments

As previously reported, the Group has provided information relating to certain historic US dollar payments to a number of authorities including The Office of Foreign Assets Control, the US Department of Justice and the New York County District Attorney's office. The Group is involved in ongoing discussions with these and other authorities with respect to agreeing a resolution of their investigations. Discussions have advanced towards resolution since the year end and the Group has provided £180 million in respect of this matter in the first half of 2008.

Taxation charge

The Group's tax charge for the first half of 2008 was £11 million, which was an effective tax rate of 1.8 per cent. This low effective tax rate, compared to the standard UK corporation tax rate, reflects a significant policyholder interests related tax credit reflecting a charge for policyholder interests within the Group's profit before tax as a result of the fall in property, gilt, bond and equity values (page 44, note 7).

Robust capital position

At the end of June 2008, the Group's capital ratios remained robust with a total capital ratio on a Basel II basis of 11.3 per cent, a tier 1 ratio of 8.6 per cent and a core tier 1 ratio of 6.2 per cent (page 55, note 18). During the first half of the year, the Group issued capital instruments totalling £2.6 billion, however the Group's capital ratios have also been affected by the impact of adverse insurance volatility, market dislocation, the timing of dividend payments and also reflect good levels of balance sheet growth. Over the last six months, risk-weighted assets increased by 8 per cent to £154 billion, reflecting strong growth in our mortgage and Corporate Markets businesses.

Scottish Widows remains strongly capitalised and, at the end of June 2008, the working capital ratio of the Scottish Widows Long Term Fund was an estimated 19.9 per cent (page 58, note 23). During the first half of 2008 a dividend of £0.2 billion was paid to the Group, bringing the total capital repatriation since the beginning of 2005 to over £3.8 billion. In June 2008 Standard & Poor's announced that it had re-affirmed its Scottish Widows 'AA-' debt rating, which remains on positive outlook.

Maintaining a strong liquidity and funding position

The current dislocation in global capital markets has been a severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment, and individual institutions have faced varying degrees of stress. Throughout the market dislocation, the Group has maintained a strong liquidity position for both the Group's funding requirements, which are supported by our strong and stable retail and corporate deposit base, and those of its sponsored conduit, Cancara. Retail and corporate deposit inflows have been strong and the Group continues to benefit from its strong credit ratings and diversity of funding sources. In January 2008, Moody's announced that it had re-affirmed its 'Aaa' long-term debt rating for Lloyds TSB Bank plc, and in June 2008 Standard & Poor's announced that it has re–affirmed its 'AA' long-term debt rating for the Bank.

Delivering strong underlying earnings momentum

The first half of 2008 has been a challenging period for all banks, however Lloyds TSB's high quality, more conservative business model remains well positioned to withstand the difficulties of global financial markets turbulence and the marked slowdown in the economic environment. The Group remains well positioned to continue to leverage its strong balance sheet and funding capability in this challenging environment. A summary of the principal risks and uncertainties that the Group is likely to face in the second half is provided in note 8 on page 45. There have been no material or unusual related party transactions during the half-year (page 36, note 1).

Strong earnings momentum has continued in the retail banking and insurance businesses, as well as our relationship focused Corporate and Commercial businesses. These strong performances have resulted in a good level of income growth which, combined with excellent cost control, has resulted in good underlying profit momentum. The Group has continued to maintain satisfactory overall asset quality and a robust capital position. As a result, the Group is well placed to maintain the recent core business momentum established, and we expect to continue to perform well in the second half of 2008.

Tim Tookey

Acting Group Finance Director

SUMMARISED SEGMENTAL ANALYSIS

Half-year to 30 June 2008	**UK Retail Banking**	**Insurance and Investments****	**Wholesale and International Banking**	**Central group items**	**Group excluding insurance gross up**	**Insurance gross up****	**Group**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**1,990**	**(33)**	**1,450**	**(78)**	**3,329**	**313**	**3,642**
Other income	**862**	**846**	**489**	**(34)**	**2,163**	**(1,727)**	**436**
Total income	**2,852**	**813**	**1,939**	**(112)**	**5,492**	**(1,414)**	**4,078**
Insurance claims	**-**	**(90)**	**-**	**-**	**(90)**	**1,434**	**1,344**
Total income, net of insurance claims	**2,852**	**723**	**1,939**	**(112)**	**5,402**	**20**	**5,422**
Operating expenses	**(1,286)**	**(302)**	**(1,120)**	**(32)**	**(2,740)**	**(10)**	**(2,750)**
Trading surplus (deficit)	**1,566**	**421**	**819**	**(144)**	**2,662**	**10**	**2,672**
Impairment	**(655)**	**-**	**(444)**	**-**	**(1,099)**	**-**	**(1,099)**
Profit (loss) before tax *	**911**	**421**	**375**	**(144)**	**1,563**	**10**	**1,573**
Volatility							
- Insurance	**-**	**(50 5)**	**-**	**-**	**(5 05)**	**-**	**(5 05)**
- Policyholder interests	**-**	**-**	**-**	**-**	**-**	**(289)**	**(2 89)**
Provision in respect of certain historic US dollar payments	**-**	**-**	**(180)**	**-**	**(180)**	**-**	**(180)**
Profit (loss) before tax	**911**	**(84)**	**195**	**(144)**	**878**	**(279)**	**5 99**

Half-year to 30 June 2007 †	UK Retail Banking	Insurance and Investments**	Wholesale and International Banking	Central group items	Group excluding insurance gross up	Insurance gross up**	Group
	£m	£m	£m	£m	£m	£m	£m
Net interest income	1,798	(56)	1,109	(154)	2,697	100	2,797
Other income	883	833	931	182	2,829	3,380	6,209
Total income	2,681	777	2,040	28	5,526	3,480	9,006
Insurance claims	-	(152)	-	-	(152)	(3,462)	(3,614)
Total income, net of insurance claims	2,681	625	2,040	28	5,374	18	5,392
Operating expenses	(1,261)	(307)	(1,041)	(3)	(2,612)	(6)	(2,618)
Trading surplus	1,420	318	999	25	2,762	12	2,774
Impairment	(627)	-	(210)	-	(837)	-	(837)
Profit before tax *	793	318	789	25	1,925	12	1,937

Volatility							
- Insurance	-	9	-	-	9	-	9
- Policyholder interests	-	-	-	-	-	(63)	(63)
Discontinued businesses	-	119	22	-	141	5	146
Settlement of overdraft claims	(36)	-	-	-	(36)	-	(36)
Profit (loss) before tax	757	446	811	25	2,039	(46)	1,993

SUMMARISED SEGMENTAL ANALYSIS (continued)

Half-year to 31 December 2007 †	UK Retail Banking	Insurance and Investments**	Wholesale and International Banking	Central group items	Group excluding insurance gross up	Insurance gross up**	Group
	£m	£m	£m	£m	£m	£m	£m
Net interest income	1,897	(50)	1,271	(214)	2,904	321	3,225
Other income	914	908	713	180	2,715	2,853	5,568
Total income	2,811	858	1,984	(34)	5,619	3,174	8,793
Insurance claims	-	(150)	-	-	(150)	(3,153)	(3,303)
Total income, net of insurance claims	2,811	708	1,984	(34)	5,469	21	5,490
Operating expenses	(1,287)	(304)	(1,111)	(3)	(2,705)	(7)	(2,712)
Trading surplus (deficit)	1,524	404	873	(37)	2,764	14	2,778
Impairment	(597)	-	(362)	-	(959)	-	(959)
Profit (loss) before tax*	927	404	511	(37)	1,805	14	1,819
Volatility							
- Insurance	-	(286)	-	-	(286)	-	(286)
- Policyholder interests	-	-	-	-	-	(159)	(159)
Discontinued businesses	-	26	6	-	32	(16)	16
Profit on sale of businesses	-	272	385	-	657	-	657
Settlement of overdraft claims	(40)	-	-	-	(40)	-	(40)
Profit (loss) before tax	887	416	902	(37)	2,168	(161)	2,007

*Excluding volatility, results of discontinued businesses, profit on sale of businesses, a provision in respect of certain historic US dollar payments and the settlement of overdraft claims.

**The Group's income statement includes income and expenditure which are attributable to the policyholders of the Group's long-term assurance funds. These items have no impact upon the profit attributable to equity shareholders. In order to provide a clearer representation of the underlying trends within the Insurance and Investments segment, these items are shown within a separate column in the segmental analysis above.

†Segmental analyses for 2007 have been restated as explained in note 2.

In the first half of 2008 the contribution from Central group items was a negative £144 million compared to a positive contribution of £25 million in the same period in 2007. The result in 2008 has been dominated by the impact of volatility in the yield curve upon the fair value of derivatives entered into for risk management purposes, after taking into account the effect of hedge accounting adjustments. The cost of hedging the subordinated debt issued during the period has also contributed to the loss incurred.

DIVISIONAL PERFORMANCE

UK RETAIL BANKING

	Half-year to 30 June 2008 £m	Half-year to 30 June 2007† £m	*Change %*	Half-year to 31 Dec 2007† £m
Net interest income	**1,990**	1,798	***11***	1,897
Other income	**862**	883	***(2)***	914
Total income	**2,852**	2,681	***6***	2,811
Operating expenses	**(1,286)**	(1,261)	***(2)***	(1,287)
Trading surplus	**1,566**	1,420	***10***	1,524
Impairment	**(655)**	(627)	***(4)***	(597)
Profit before tax, excluding settlement of overdraft claims	**911**	793	***15***	927
Settlement of overdraft claims	**-**	(36)		(40)
Profit before tax	**911**	757	***20***	887
Cost:income ratio*	**45.1%**	47 .0 %		45.8 %
Total assets	**£ 122.5bn**	£112.7 bn	***9***	£115.0bn
Customer deposits	**£85.6bn**	£78.0bn	***10***	£82.1bn

*Excluding settlement of overdraft claims.

†Restated, see note 2.

Key highlights

- **Excellent profit performance, against a slowdown in economic activity.** Profit before tax increased by 15 per cent to £911 million, excluding the settlement of overdraft claims.

- **Strong income momentum maintained,** up 6 per cent , supported by overall sales growth of 8 per cent.

- **Strong growth in deposits** resulted in a 10 per cent increase in deposit balances, with 19 per cent growth in bank savings.

- **Excellent market share of net new mortgage lending,** estimated at 24.4 per cent in the first half of the year.

- **Improved net interest margin,** with net interest margin in the first half of 2008 8 basis point s higher than the first half of 2007, reflecting improved key product margins, particularly in new mortgages and unsecured personal lending.

- **Continued good cost management,** with a clear focus on investing to improve service quality and processing efficiency. Excluding the impact of the settlement of overdraft claims, operating expenses increased by only 2 per cent and there was an improvement in the cost:income ratio to 45.1 per cent .

- **The quality of new lending continues to be strong,** reflecting the continued tightening of credit policy. The impairment charge as a percentage of average lending in the first half of 2008 was lower than in the same period in 2007 .

UK RETAIL BANKING (continued)

During the first half of 2008, **UK Retail Banking** continued to make substantial progress in each of its key strategic priorities: growing income from its existing customer base; expanding its customer franchise; and improving productivity and efficiency. In each of these areas, a key focus has been on sales of recurring income products, such as current accounts and savings products which, combined with higher lending related income, has supported the strong rate of revenue growth.

Profit before tax from UK Retail Banking increased by £154 million, or 20 per cent, to £911 million, reflecting strong levels of franchise growth, excellent cost management and a slightly higher impairment charge. Excluding the settlement of overdraft claims, profit before tax increased by 15 per cent to £911 million. Total income increased by £171 million, or 6 per cent, whilst operating expenses remained well controlled, increasing by 2 per cent.

Growing income from the customer base

The r etail b ank has continued to make excellent progress, delivering strong product sales growth and revenue momentum, notwithstanding the challenging UK economic environment. Overall sales increased by 8 per cent, with improvements over a broad range of products. Sales volumes were particularly strong in the internet channel with an increase of 49 per cent and now amount to 10 per cent of overall product sales. The continued strong sales growth has been driven by strong levels of growth in mortgages, personal loans, bank savings and wealth management products. Our market share of new business in these key product areas has continued to increase, as the retail bank has successfully leveraged the benefit of the Group's strong balance sheet to support increasing customer sales.

Customer deposits have increased strongly, by 10 per cent over the last 12 months, with particularly strong progress in growing our relationship focused bank savings and wealth management deposit balances, with increases of 19 per cent and 25 per cent respectively. Our Cash ISA product was extremely successful, with almost 350,000 Cash ISA's sold in the first half of the year, and total cash ISA deposits were five times those taken in the whole of 2007.

Current account and savings balances	**30 June 2008 £m**	30 June 2007 £m	***Change %***	31 Dec 2007 £m
Bank savings	**45,165**	38,062	***19***	41,976
C&G deposits	**13,964**	14,502	***(4)***	14,861
Wealth management	**5,916**	4,737	***25***	4,939
UK Retail Banking savings	**65,045**	57,301	***14***	61,776
Current accounts	**20,594**	20,684	***-***	20,305
Total customer deposits	**85,639**	77,985	***10***	82,081

Over the last 12 months, the Group has made significant progress in building its mortgage business, in a mortgage market that has slowed considerably. We are currently expecting UK net new mortgage lending for 2008 to total approximately £60 billion, compared to £108 billion in 2007. The Group continues to focus on those segments of the prime mortgage market where value can be created whilst taking a conservative approach to credit risk. Lloyds TSB has long adopted an approach of managing for a value, targeting growth in profitable new business rather than overall market share. This approach, together with a recent material uplift in interest spreads, has led to new business net interest margins strengthening significantly.

UK RETAIL BANKING (continued)

Gross new mortgage lending for the Group increased by 5 per cent to £16.8 billion (2007H1: £ 16.0 billion), with the mortgage market being supported predominantly by re-mortgage activity. This represents a substantial increase in our share of gross lending to 11.3 per cent (2007H1:9.0 per cent). This, in conjunction with a reduction in the Group's share of mortgage redemptions, has led to a significant increase in our market share of net new lending to approximately 24.4 per cent. Mortgage balances outstanding increased by 9 per cent to £109.3 billion.

In June 2008 the Group announced that it has entered into a three year agreement with Northern Rock, whereby certain Northern Rock mortgage customers approaching the end of their fixed rate period will be offered the opportunity to switch to a Lloyds TSB mortgage. The agreement with Northern Rock is consistent with our strategy of building our core franchise and deepening relationships with customers. It will allow the Group to accelerate new business growth in a low risk manner.

Despite tightened credit criteria and a slowdown in consumer demand, we have maintained our market leading position in personal loans, growing our market share of the unsecured personal loans market whilst remaining primarily focused on our current account customer base. Unsecured consumer credit balances were broadly flat with personal loan balances outstanding at 30 June 200 8 up 6 per cent at £11.8 billion, whilst credit card balances fell slightly to £6.5 billion.

Expanding the customer franchise

In addition to the strong growth in product sales from existing customers, the Group has continued to make progress in expanding its customer franchise. The retail bank opened nearly half a million new current accounts during the first half of the year, supported by an updated range of added value current accounts with enhanced product features.

Wealth management continues to make good progress with its expansion plans to deliver an enhanced wealth management offer comprising private banking, open architecture portfolio management, retirement planning, insurance and estate planning services. New funds under management increased by 40 per cent, Investment Portfolio cases grew by 17 per cent and wealth management banking deposits increased by 25 per cent. As a result, despite a 15 per cent reduction in the FTSE 100 index, total customer assets increased by 7 per cent .

The demand for the Lloyds TSB Airmiles Duo credit card account, which was launched in the middle of 2007, has continued to be extremely strong, with 1.4 million customers now signed up to use the account. Duo customers tend to be higher quality, more transactional customers. As a result, Lloyds TSB has maintained its position as a UK market leader in new credit card issuance in the first half of 2008, and over the last 12 months has doubled its estimated new business market share to 12 per cent. In addition, Lloyds TSB has been the leading consumer debit card issuer in the UK during the first half of the year.

UK RETAIL BANKING (continued)

Improving productivity and efficiency

We have continued to benefit from recent investment in reducing the levels of administration and processing work carried out in branches. This has enabled us to further increase our focus on meeting the needs of our customers and has supported improved productivity in the branch network sales effort. Average sales by staff in the branch network have shown good growth on the levels achieved in 2007, as we have continued to reallocate more staff from back office roles into customer facing activities. These improvements have supported a further improvement in the retail banking cost:income ratio, excluding the impact of the settlement of overdraft claims, to 45.1 per cent, from 47.0 per cent last year.

Telephone banking has continued to improve the quality of the service which it provides to customers, allowing us to focus on better meeting the needs of our customers whilst also improving efficiency. We are now offering customers more automated services, including the payment of bills, and a single point of telephone contact.

Impairment levels remain satisfactory

Impairment losses on loans and advances were slightly higher at £655 million, largely reflecting the impact of lower house prices on the mortgage impairment charge. The impairment charge as a percentage of average lending was slightly lower at 1.12 per cent, compared to 1.15 per cent in the first half of last year. Over 99 per cent of new personal loans and 90 per cent of new credit cards sold during the first half of 2008 were to existing customers. The level of arrears in the credit card portfolio continued to improve during the first half of 2008, whilst personal loans and overdraft arrears remained broadly stable.

In terms of unsecured lending, our asset quality remains good and our current arrears performance remains satisfactory. As a result, we do not expect the retail unsecured impairment charge in 2008 to significantly exceed the unsecured impairment charge in 2007. However, in the context of the uncertain UK economic environment and the potential for increased consumer arrears and insolvencies, we are continuing to enhance our underwriting, collections and fraud prevention procedures.

Mortgage credit quality remains excellent with arrears remaining broadly stable, up 3 per cent over the last 12 months. The fall in the house price index over the last six months has however led to an increase of £36 million in the house price index related charge for impairments in the first half of the year. Looking forward, our view is for a fall in the house price index of between 10 and 15 per cent during 2008. Were the index to fall by, for example, 12.5 per cent this year, we might expect the house price index related component of the impairment charge in the second half of 2008 to be approximately £100 million.

Excluding the impact of this house price index related charge, mortgage impairments remained at a relatively low level. In Cheltenham & Gloucester, the average indexed loan-to-value ratio on the mortgage portfolio was 47 per cent, and the average loan-to-value ratio for new mortgages and further advances written during the first half of 2008 was 63 per cent. At 30 June 2008, only 4 per cent of balances had an indexed loan-to-value ratio in excess of 95 per cent . Compared to the Council of Mortgage Lenders (CML) industry averages at 31 March 2008, Cheltenham & Gloucester had approximately half the industry average for properties in possessions and new repossessions as a percentage of total cases in the first quarter of 2008. In addition, arrears in the Group's buy-to-let portfolio represent only a small fraction of CML industry averages. We extensively stress-test our lending to changes in macroeconomic conditions and we remain very confident in the quality of our mortgage portfolio.

INSURANCE AND INVESTMENTS

	Half-year to 30 June 2008	Half-year to 30 June 2007†	***Change***	Half-year to 31 Dec 2007†
Continuing businesses, excludin g volatility and profit on sale of businesses	**£m**	£m	*%*	£m
Net interest income	**(33)**	(56)	***41***	(50)
Other income	**846**	833	***2***	908
Total income	**813**	777	***5***	858
Insurance claims	**(90)**	(152)	***41***	(150)
Total income, net of insurance claims	**723**	625	***16***	70 8
Operating expenses	**(302)**	(307)	***2***	(304)
Insurance grossing adjustment (page 13)	**10**	12		14
Profit before tax	**431**	330	***31***	418
Profit before tax analysis				
Life, pensions and OEICs				
New business profit – life and pensions	**124**	80	***55***	83
New business loss – OEICs	**(11)**	(12)	***8***	(10)
Existing business	**158**	167	***(5)***	244
Expected return on shareholders' net assets	**27**	25	***8***	20
	298	260	***15***	337
General insurance	**113**	50	***126***	60
Scottish Widows Investment Partnership	**20**	20	**-**	21
Profit before tax	**431**	330	***31***	418
Present value of new business premiums (PVNBP)	**5,375**	5,372	**-**	5,052
PVNBP new business margin (EEV basis)	**3.0 %**	3.4%		2.9%
Post-tax return on embedded value (EEV basis, page 61 , note 24)	**11.7 %**	10.8%		10.4%

†Restated, see note 2.

Key highlights

- **Strong profit performance**. Profit before tax increased by 31 per cent to £431 million.
- **Good income growth and strong cost management.** Income increased by 5 per cent, whilst operating expenses decreased by 2 per cent.

- **Good sales performance,** with an 8 per cent increase in Scottish Widows' bancassurance sales offsetting a 5 per cent reduction in sales through the IFA distribution channel.

- **Continued high returns .** On an EEV basis, the post-tax return on embedded value remained high at 11.7 per cent .

- **Strong profit performance in General insurance.** Profits more than doubled in the first half of 2008 following non-repetition of the severe weather conditions in 2007.

- **Resilient performance by Scottish Widows Investment Partnership,** as profit before tax remained stable against the backdrop of a significant reduction in equity market levels.

INSURANCE AND INVESTMENTS (continued)

Scottish Widows life, pensions and OEICs

Profit before tax increased by £38 million, or 15 per cent, to £298 million.

Life and pensions new business profit, on an IFRS basis and excluding volatility, increased by 55 per cent to £124 million , reflecting an improved mix in protection sales towards higher margin products and an increase in the proportion of insurance-based products.

During the first half of 2008, Scottish Widows has continued to make good progress in each of its key business priorities: to maximise bancassurance success; to profitably grow IFA sales; to improve service and operational efficiency; and to optimise capital management.

Maximising bancassurance success

During the first half of 2008, the value of Scottish Widows' bancassurance new business premiums increased by 8 per cent, building on the success of the simplified product range for distribution through the Lloyds TSB branch network, Commercial Banking and Wealth Management channels. Sales of OEICs through the wealth segment were particularly strong and have more than offset a reduction in volumes through the mass market segment, where a reduction in the sales of equity-backed OEICs has been partly offset by strong sales of capital protected savings products. Sales of protection products also increased significantly reflecting the successful launch of a number of enhancements to the 'Protection for Life' product suite. Scottish Widows' UK market share in its key life, pensions and investments markets in the bancassurance distribution channel continues to grow.

IFA sales

Sales through the IFA distribution channel decreased by 5 per cent reflecting a reduction in marketwide IFA sales. Sales performance was particularly strong in corporate pensions which grew by 32 per cent following the strengthening of our product offer and the gain of a number of new corporate pension scheme mandates. In addition, sales of individual pensions increased by 12 per cent reflecting a positive market response to the introduction of post-retirement options to the Scottish Widows Retirement Account pension product. Challenging conditions in the external investment bond market, partly driven by changes in Capital Gains Tax regulations, led to a significant reduction, of 53 per cent, in the sale of savings and investment products within the IFA channel.

INSURANCE AND INVESTMENTS (continued)

Present value of new business premiums (PVNBP)	Half-year to 30 June 2008 £m	Half-year to 30 June 2007 £m	Change %	Half-year to 31 Dec 2007 £m
Life and pensions:				
Protection	**515**	488	*6*	472
Savings and investments	**253**	499	*(49)*	414
Individual pensions	**1,234**	1,092	*13*	981
Corporate and other pensions	**1,159**	928	*25*	1,213
Retirement income	**506**	516	*(2)*	528
Managed fund business	**132**	344	*(62)*	142
Life and pensions	**3,799**	3,867	*(2)*	3,750
OEICs	**1,576**	1,505	*5*	1,302
Life, pensions and OEICs	**5,375**	5,372	-	5,052
Single premium business	**4,067**	4,378	*(7)*	3,9 97
Regular premium business	**1,308**	994	*32*	1,055
Life, pensions and OEICs	**5,375**	5,372	-	5,052
Bancassurance	**2,302**	2,138	*8*	1,958
Independent financial advisers	**2, 799**	2,950	*(5)*	2,867
Direct	**27 4**	284	*(4)*	227
Life, pensions and OEICs	**5,375**	5,372	-	5,052

Improving service and operational efficiency

The business has made further improvements in service and operational efficiencies, and the benefits can be seen in a continued reduction of 2 per cent in expenses, notwithstanding ongoing investment in building an enhanced suite of products. In addition, Scottish Widows has been awarded Best Individual Pension Provider and Best Pension Provider in the 2008 Financial Adviser Life & Pension awards.

Optimising capital management

Scottish Widows has maintained its strong focus on improving capital management. The post-tax return on embedded value, on an EEV basis, increased further to 11.7 per cent, partly reflecting a lower value of in-force business. During the first half of 2008, £0.2 billion of capital was repatriated to the Group via the regular annual dividend payment, giving a total capital repatriation of over £3.8 billion since the beginning of 2005.

INSURANCE AND INVESTMENTS (continued)

Results on a European Embedded Value (EEV) basis

Lloyds TSB continues to report under IFRS, however, in line with industry best practice, the Group provides supplementary financial reporting for Scottish Widows on an EEV basis. The Group believes that EEV represents the most appropriate measure of long-term value creation in life assurance and investment businesses.

Continuing businesses*	**Half-year to 30 June 2008 Life, pensions and OEICs £m**	Half-year to 30 June 2007 Life, pensions and OEICs £m	***Change %***	Half-year to 31 Dec 2007 Life, pensions and OEICs £m
New business profit	**160**	180	***(11)***	146
Existing business				
- Expected return	**158**	146	***8***	150
- Experience variances	**-**	3		38
- Assumption changes	**24**	(8)		(24)
	1 82	141	***29***	164
Expected return on shareholders' net assets	**75**	81	***(7)***	85
Profit before tax, adjusted for capital repatriation*	**417**	402	***4***	395
Impact of capital repatriation to Group	**-**	13		8
Profit before tax*	**417**	415	**-**	403
New business margin (PVNBP)	**3.0%**	3.4%		2.9%
Embedded value (period end) – continuing businesses	**£4,903m**	£5,421 m		£5,365 m
Post-tax return on embedded value*	**11.7%**	10.8%		10.4%

* Excluding volatility and other items (page 49, note 9) .

Adjusting for the impact of capital repatriation to Group, EEV profit before tax from the Group's life, pensions and OEICs business increased by 4 per cent to £417 million.

New business profit fell by £20 million, or 11 per cent, to £160 million and the overall new business margin reduced to 3.0 per cent, from 3.4 per cent in the first half of last year. The reduction in both reflects a decrease in sales of equity-related OEIC products in our mass market customer business, and an increase in finer margin OEIC sales through our Wealth Management business. The life and pensions new business margin remained strong at 3.6 per cent (page 61, note 24).

Existing business profit increased by 29 per cent . Expected return increased by 8 per cent to £158 million driven by an increase in profits from our annuity portfolio. Experience variances are not significant, with adverse lapse experience within our life and pensions business offset by favourable lapse experience within OEICs and other items. The positive assumption changes of £24 million largely reflect reduced OEIC costs. This compares to adverse assumption changes of £8 million in the first half of last year as improved income from our OEICs business was more than offset by modelling changes in the life and pensions business. The expected return on shareholders' net assets decreased by £6 million as a result of a lower volume of free assets, driven by lower investment markets.

Overall the post-tax return on embedded value increased to 11.7 per cent.

Insurance and Investments (continued)

Scottish Widows Investment Partnership

Pre-tax profit from Scottish Widows Investment Partnership (SWIP) was unchanged at £20 million. The impact of falling equity and bond markets on annual management charges received was offset by improved cost management throughout the business. Over the last 12 months, SWIP's assets under management decreased by £7.6 billion to £90.2 billion, again largely reflecting the impact of lower equity, bond and property market values.

Movements in funds under management

The following table highlights the movement in retail and institutional funds under management.

	Half-year to 30 June 2008 £bn	Half-year to 30 June 2007 £bn	Half-year to 31 Dec 2007 £bn
Opening funds under management	**102.7**	105.7	102.6
Movement in Retail Funds			
Premiums	**5.9**	6.2	5.5
Claims	**(2.2)**	(2.1)	(2.7)
Surrenders	**(2.7)**	(2.8)	(3.6)
Net inflow of business	**1.0**	1.3	(0.8)
Investment return, expenses and commission	**(6.1)**	1.7	0.7
Net movement	**(5.1)**	3.0	(0.1)
Movement in Institutional Funds			
Lloyds TSB pension schemes	**-**	(5.7)	-
Other institutional funds	**-**	(0.3)	(0.3)
Investment return, expenses and commission	**(1.9)**	0.5	0.8
Net movement	**(1.9)**	(5.5)	0.5
Proceeds from sale of Abbey Life	**-**	-	1.0
Dividends and surplus capital repatriation	**(0.2)**	(0.6)	(1.3)
Closing funds under management	**95.5**	102.6	102.7
Managed by SWIP	**90.2**	97.8	97.6
Managed by third parties	**5.3**	4.8	5.1
Closing funds under management	**95.5**	102.6	102.7

Including assets under management within our UK Wealth Management and International Private Banking businesses, Groupwide funds under management decreased by 5 per cent to £115 billion.

Insurance and Investments (continued)

General insurance

	Half-year to 30 June 2008 £ m	Half-year to 30 June 2007† £m	***Change*** *%*	Half-year to 31 Dec 2007† £m
Commission receivable	**280**	335	***(16)***	313
Commission payable	**(315)**	(353)	***11***	(339)
Underwriting income (net of reinsurance)	**303**	294	***3***	297
Other income	**14**	5		14
Net operating income	**282**	281	**-**	285
Claims paid on insurance contracts (net of reinsurance)	**(90)**	(152)	***41***	(150)
Operating income, net of claims	**192**	129	***49***	135
Operating expenses	**(79)**	(79)	**-**	(75)
Profit before tax	**113**	50	***126***	60
Claims ratio	**29 %**	50%		49%
Combined ratio	**76 %**	96%		93%

†Restated, see note 2.

Profit before tax from our general insurance operations increased by £63 million, to £113 million, reflecting a £57 million reduction in claims due to the absence of the severe weather related claims experienced in the first half of 2007 and the continued benefits from ongoing investment in our claims processes.

Net operating income increased by £1 million, reflecting good increases in income from home insurance underwriting, with sales through the branch network generating an increase in new business premiums of 10 per cent, partly offset by lower creditor insurance income. Our continued focus on improving operational efficiency and improving the effectiveness of our marketing spend has resulted in costs remaining flat despite ongoing investment in key strategic initiatives.

Developing key insurance partnerships

General Insurance continues to invest in the development of its Corporate Partnership distribution arrangements and significant benefits from recent acquisitions and new partnership arrangements agreed during the first half of 2008, particularly with Resolution Life and Readers Digest, have already started to be delivered and are expected to underpin further improvement over the next few years. New sales through corporate partnering relationships have more than doubled since the first half of last year.

Improving Efficiency and Service

Claims are £62 million lower than in the first half of last year, principally reflecting the absence of extreme weather related claims experienced last year. Adjusting for these extreme weather related claims, the claims ratio improved from 31 per cent to 29 per cent.

During June and July 2007 Lloyds TSB Insurance received over 4,600 claims resulting from flood events. By the end of June 2008, 94 per cent of these customers were back in their refurbished homes, and the small number of more difficult properties are on track for near-term completion. Customer feedback on the service delivered has been very positive, and customer satisfaction measures have continued to improve.

WHOLESALE AND INTERNATIONAL BANKING

Continuing businesses, excluding a provision in respect of certain historic US dollar payments and profit on sale of businesses	**Half-year to 30 June 2008**	Half-year to 30 June 2007†	***Change***	Half-year to 31 Dec 2007†
	£m	£m	*%*	£m
Net interest income	**1,450**	1,109	***31***	1,271
Other income				
- Before market dislocation	**966**	931	***4***	901
- Market dislocation	**(477)**	-		(188)
	489	931	***(47)***	713
Total income				
- Before market dislocation	**2,416**	2,040	***18***	2,172
- Market dislocation	**(477)**	-		(188)
	1,939	2,040	***(5)***	1,984
Operating expenses	**(1,120)**	(1,041)	***(8)***	(1,111)
Trading surplus	**819**	999	***(18)***	873
Impairment				
- Before market dislocation	**(336)**	(210)	***(60)***	(270)
- Market dislocation	**(108)**	-		(92)
	(444)	(210)	***(111)***	(362)
Profit before tax		-		
- Before market dislocation	**960**	789	***22***	791
- Market dislocation	**(585)**	-		(280)
	375	789	***(52)***	511
Cost:income ratio	**57.8%**	51.0%		56.0 %
Cost:income ratio, excluding market dislocation	**46.4%**	51.0%		51.2%
Total assets	**£172.8bn**	£151.4 bn	***14***	£163.3 bn
Customer deposits	**£74.4bn**	£64.4bn	***16***	£72.3bn

†Restated, see note 2.

Key highlights

- **Continued strong relationship banking momentum.** Excluding the impact of market dislocation, profit before tax increased by 22 per cent, to £960 million.

- **Overall profits impacted by turbulence in global financial markets.** Whilst the division has limited exposure to assets affected by current capital market uncertainties, the impact of recent market dislocation has been to reduce profit before tax in the first half of 2008 by £585 million.

- **Excellent progress in expanding our Corporate Markets business,** with a 27 per cent increase in Corporate Markets income supporting a 22 per cent increase in profit before tax, excluding the impact of market dislocation. Cross-selling income in Corporate Markets increased by 64 per cent.

- **Continued strong franchise growth in Commercial Banking,** with a 9 per cent growth in income and a further increase in our market share of higher value customers.

- **Strong risk management and good asset quality,** despite a rise of £234 million in impairment losses, largely as a result of the £108 million impact of market dislocation and an increase in impairments from a small number of specific situations.

Wholesale and International Banking (continued)

In **Wholesale and International Banking**, the Group has continued to make significant progress in its strategy to develop the Group's strong corporate and small to medium business customer franchises and, in doing so, become the best UK mid-market focused wholesale bank. In a challenging external market environment, the division has continued to make substantial progress in its relationship banking businesses, benefiting particularly from the strength of the Group's balance sheet and the Group's strong liquidity and funding capabilities. In Corporate Markets, further good progress has been made in developing our relationship banking franchise supported by a strong cross-selling performance. In Commercial Banking, strong growth in business volumes, further customer franchise improvements and good progress in improving operational efficiency, were offset by an increase in the impairment charge.

Overall, the division's profit before tax decreased by 52 per cent to £375 million, reflecting the £585 million reduction in profits as a result of market dislocation. Excluding this impact, profit before tax increased by 22 per cent, with a continued strong performance in our relationship banking businesses. This has generated overall income growth, excluding the impact of market dislocation, of 18 per cent, driven by strong Corporate Markets and Commercial Banking income growth of 27 per cent and 9 per cent respectively. This exceeded cost growth of 8 per cent, largely reflecting further investment in building the Corporate Markets business, leading to an improvement in the cost:income ratio to 46.4 per cent, from 51.0 per cent last year. Trading surplus, excluding the impact of market dislocation, increased by £297 million, or 30 per cent, to £1,296 million.

The charge for impairment losses on loans and advances increased by £234 million to £444 million, as a result of the £108 million impact of market dislocation, a modest increase in the level of impairments reflecting the economic slowdown in the UK, the impact of recent growth in the corporate lending portfolio, and an increase in impairments from provisions against a small number of specific situations. Despite this increase in the impairment charge we believe that we remain relatively well positioned to withstand the economic slowdown as a result of our prudent credit management policy, and our overall corporate and SME lending remains good.

Profit before tax by business unit	**Half-year to 30 June 2008**	Half-year to 30 June 2007†	***Change***	Half-year to 31 Dec 2007†
	£m	£m	*%*	£m
Corporate Markets				
- Before impact of market dislocation	**620**	508	***22***	502
- Impact of market dislocation	**(585)**	-		(280)
	35	508	***(93)***	222
Commercial Banking	**222**	224	***(1)***	24 5
International Banking	**80**	68	***18***	70
Asset Finance	**35**	23	***52***	16
Other	**3**	(34)		(42)
Profit before tax				
- Before market dislocation	**960**	789	***22***	791
- Market dislocation	**(585)**	-		(280)
	375	789	***(52)***	511

†Restated, see note 2.

Wholesale and International Banking (continued)

Co rporate Markets	**Half-year to 30 June 2008 £m**	Half-year to 30 June 2007† £m	***Change %***	Half-year to 31 Dec 2007† £m
Net interest income	**714**	443	***61***	539
Other income				
- Before market dislocation	**381**	419	***(9)***	389
- Market dislocation	**(477)**	-		(188)
	(96)	419		201
Total income				
- Before market dislocation	**1,095**	862	***2 7***	928
- Market dislocation	**(477)**	-		(188)
	618	862	***(28)***	740
Operating expenses	**(339)**	(303)	***(12)***	(329)
Trading surplus	**279**	559	***(50)***	411
Impairment				
- Before market dislocation	**(136)**	(51)	***(1 67)***	(97)
- Market dislocation	**(108)**	-		(92)
	(244)	(51)		(189)
Profit before tax*				
- Before market dislocation	**620**	508	***22***	502
- Market dislocation	**(585)**	-		(280)
	35	508	***(93)***	222

*Excluding a provision in respect of certain historic US dollar payments.

†Restated, see note 2.

In Corporate Markets, profit before tax fell by 93 per cent, however, excluding the impact of market dislocation, profit before tax increased by 22 per cent. On this basis, income increased by 27 per cent, supported by strong growth in corporate lending and a 64 per cent increase in cross-selling income. This strong growth in cross-selling income has been supported by the Group's ability to leverage its strong funding capabilities and fund at market leading rates, which has enabled the Corporate Markets business to continue to grow significantly in the first half of 2008. Corporate Markets has continued to build its product capabilities and has been fulfilling substantially increased customer demand for interest rate and currency derivative products.

The trading surplus, excluding market dislocation, increased by 35 per cent and resulted in a further improvement in the cost:income ratio to 31.0 per cent, from 35.2 per cent in the first half of 2007. Operating expenses increased by 12 per cent to £339 million, reflecting significant further investment in people to support the substantial business growth in our Corporate Markets relationship business. Excluding the impact of market dislocation, the increase in the impairment charge reflects a modest increase in level of impairments as a result of the economic slowdown in the UK, the impact of recent growth in the corporate lending portfolio and impairments relating to provisions against a small number of specific situations.

Wholesale and International Banking (continued)

Commercial Banking	**Half-year to 30 June 2008 £m**	Half-year to 30 June 2007† £m	***Change %***	Half-year to 31 Dec 2007† £m
Net interest income	**475**	438	***8***	47 0
Other income	**227**	208	***9***	221
Total income	**702**	646	***9***	69 1
Operating expenses	**(394)**	(375)	***(5)***	(394)
Trading surplus	**308**	271	***14***	29 7
Impairment	**(86)**	(47)	***(83)***	(52)
Profit before tax	**222**	224	***(1)***	24 5

†Restated, see note 2.

Profit before tax in Commercial Banking fell by £2 million, or 1 per cent, as strong growth in business volumes, growth in the Commercial Banking customer franchise and further improvements in operational efficiency and effectiveness, were offset by an increase in the impairment charge, primarily reflecting one individual transaction. Income increased by 9 per cent to £702 million, reflecting disciplined growth in lending and deposit balances, and an increased focus on the more valuable higher turnover customer relationships which have substantially greater product needs. Over the last few reporting periods, the Group has continued to build its market share of high value customers in the £0.5 to £2 million and £2 to £15 million turnover range to 16 per cent, and to 13 per cent respectively, as a result of continuing to make good progress in attracting customers ‘switching’ from other financial services providers.

Costs were 5 per cent higher. Cost management remains a priority and the business is now starting to capture significant benefits from recent investments in improved IT infrastructure, allowing further investment to be made in higher levels of relationship managers. Asset quality in the Commercial Banking portfolios has remained good and over 87 per cent of the portfolio is supported by security, however impairment provisions rose by £39 million largely reflecting one individual transaction. Excluding this provision, the impairment charge as a percentage of average lending was broadly stable, although in the last few months there has been some increase in the level of arrears reflecting the economic slowdown in the UK.

Wholesale and International Banking (continued)

International Banking	**Half-year to 30 June 2008 £m**	Half-year to 30 June 2007† £m	***Change %***	Half-year to 31 Dec 2007† £m
Net interest income	**116**	94	***23***	107
Other income	**97**	87	***11***	92
Total income	**213**	181	***18***	199
Operating expenses	**(131)**	(116)	***(13)***	(128)
Trading surplus	**82**	65	***26***	71
Impairment	**(2)**	3		(1)
Profit before tax	**80**	68	***18***	70

†Restated, see note 2.

Profit before tax in International Banking grew by 18 per cent to £80 million reflecting strong income growth from meeting the needs of our customers, as the Group has increased its focus on growing its customer franchise in the increasingly global mobile affluent and high net worth wealth management market. Total income grew to £213 million, up 18 per cent (12 per cent excluding the impact of exchange rate movements), reflecting strong customer franchise growth, improved lending volumes at increased margins and strong growth in customer deposits. Costs increased by 13 per cent (6 per cent excluding the impact of exchange rate movements) reflecting increased investment in our target Private Banking and Expatriate Banking markets, and the trading surplus increased by 26 per cent.

Asset Finance	**Half-year to 30 June 2008 £m**	Half-year to 30 June 2007† £m	***Change %***	Half-year to 31 Dec 2007† £m
Net interest income	**144**	133	***8***	15 0
Other income	**230**	220	***5***	203
Total income	**374**	353	***6***	35 3
Operating expenses	**(227)**	(219)	***(4)***	(220)
Trading surplus	**147**	134	***10***	133
Impairment	**(112)**	(111)	***(1)***	(117)
Profit before tax	**35**	23	***52***	16

†Restated, see note 2.

Profit before tax in Asset Finance increased by 52 per cent to £35 million, largely reflecting good income growth, a strong focus on improving efficiency and effectiveness, lower staff numbers and continued tight credit criteria. Income increased by £21 million, or 6 per cent, whilst costs were 4 per cent higher and, notwithstanding the economic slowdown in the UK, the impairment charge increased by only £1 million, to £112 million. This reflects the recent tightening of credit criteria, improved collections procedures and lower balances outstanding. In Personal Finance, new business volumes have risen modestly in a competitive market. Our Contract Hire business, Autolease, has performed well by continuing to leverage its strong market position and efficient operation.

CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

CONSOLIDATED INCOME STATEMENT

	Half-year to 30 June 2008 £m	Half-year to 30 June 2007 £m	Half-year to 31 Dec 2007 £m
Interest and similar income	**8,713**	7,982	8,892
Interest and similar expense	**(5,066)**	(5,136)	(5,639)
Net interest income	**3,647**	2,846	3,253
Fee and commission income	**1,582**	1,597	1,627
Fee and commission expense	**(351)**	(301)	(299)
Net fee and commission income	**1,231**	1,296	1,328
Net trading income	**(4,817)**	2,366	757
Insurance premium income	**2,914**	2,535	2,895
Other operating income	**309**	668	284
Other income	**(363)**	6,865	5,264
Total income	**3,284**	9,711	8,517
Insurance claims	**1,344**	(4, 121)	(3,401)
Total income, net of insurance claims	**4,628**	5,590	5,116
Operating expenses	**(2,930)**	(2,760)	(2,807)
Trading surplus	**1,698**	2,830	2,309
Impairment	**(1,099)**	(837)	(959)
Profit on sale of businesses	**-**	-	657
Profit before tax	**599**	1,993	2,007
Taxation	**(11)**	(433)	(246)
Profit for the period	**588**	1,560	1,761
Profit attributable to minority interests	**12**	20	12
Profit attributable to equity shareholders	**576**	1,540	1,749
Profit for the period	**588**	1,560	1,761
Basic earnings per share	**10.2 p**	27.3p	31.0p
Diluted earnings per share	**10.1 p**	27.1p	30.8p
Dividend per share for the period *	**11.4 p**	11.2p	24.7p
Dividend for the period *	**£648m**	£632m	£1,394 m

*The dividend for the half-year to 30 June 2008 represents the interim dividend for 2008 which will be paid and accounted for on 1 October 2008 (the dividends shown for the half-year to 30 June 2007 and the half-year to 31 December 2007 represent the interim and final dividends for 2007 which were paid and accounted for on 3 October 2007 and 7 May 2008 respectively).

CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

CONSOLIDATED balance sheet

	30 June 2008 £m	30 June 2007 £m	31 Dec 2007 £m
Assets			
Cash and balances at central banks	**3,616**	1,255	4,330
Items in course of collection from banks	**1,883**	1,727	1,242
Trading and other financial assets at fair value through profit or loss	**52,037**	68,424	57,911
Derivative financial instruments	**9,914**	6,640	8,659
Loans and advances to banks	**29,319**	33,599	34,845
Loans and advances to customers	**229,621**	200,181	209,814
Available-for-sale financial assets	**25,032**	21,994	20,196
Investment property	**3,366**	5,177	3,722
Goodwill	**2,358**	2,377	2,358
Value of in-force business	**2,101**	2,890	2,218
Other intangible assets	**182**	141	149
Tangible fixed assets	**2,856**	3,220	2,839
Other assets	**5,497**	5,470	5,063
Total assets	**367,782**	353,095	353,346
Equity and liabilities			
Deposits from banks	**40,207**	40,017	39,091
Customer accounts	**162,129**	144,654	156,555
Items in course of transmission to banks	**835**	727	668
Trading and other financial liabilities at fair value through profit or loss	**3,572**	2,866	3,206
Derivative financial instruments	**9,931**	6,890	7,582
Debt securities in issue	**58,437**	49,812	51,572
Liabilities arising from insurance contracts and participating investment contracts	**35,780**	41,985	38,063
Liabilities arising from non-participating investment contracts	**16,331**	25,609	18,197
Unallocated surplus within insurance businesses	**433**	628	554
Other liabilities	**11,306**	12,072	9,690
Retirement benefit obligations	**1,925**	2,332	2,144
Current tax liabilities	**108**	946	484
Deferred tax liabilities	**632**	1,236	948
Other provisions	**381**	233	209
Subordinated liabilities	**14,694**	11,378	11,958
Total liabilities	**356,701**	341,385	340,921
Equity			
Share capital	**1,441**	1,430	1,432

Share premium account	**1,396**	1,284	1,298
Other reserves	**(685)**	351	(60)
Retained profits	**8,645**	8,308	9,471
Shareholders' equity	**10,797**	11,373	12,141
Minority interests	**284**	337	284
Total equity	**11,081**	11,710	12,425
Total equity and liabilities	**367,782**	353,095	353,346

CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders				
	Share capital and premium £m	Other reserves £m	Retained profits £m	Minority interests £m	Total £m
Balance at 1 January 2007	2,695	336	8,124	352	11,507
Movements in available-for-sale financial assets, net of tax:					
- change in fair value	-	14	-	-	14
- transferred to income statement in respect of disposals	-	(1)	-	-	(1)
Movement in cash flow hedges, net of tax	-	(2)	-	-	(2)
Currency translation differences	-	4	-	(1)	3
Net income recognised directly in equity	-	15	-	(1)	14
Profit for the period	-	-	1,540	20	1,560
Total recognised income for the period	-	15	1,540	19	1,574
Dividends	-	-	(1,325)	(4)	(1,329)
Purchase/sale of treasury shares	-	-	(36)	-	(36)
Employee share option schemes:					
- value of employee services	-	-	5	-	5
- proceeds from shares issued	19	-	-	-	19
Repayment of capital to minority shareholders	-	-	-	(30)	(30)
Balance at 30 June 2007	2,714	351	8,308	337	11,710
Movements in available-for-sale financial assets, net of tax:					
- change in fair value	-	(450)	-	-	(450)
- transferred to income statement in respect of disposals	-	(4)	-	-	(4)
- transferred to income statement in respect of impairment	-	49	-	-	49
- disposal of businesses	-	(6)	-	-	(6)
Movement in cash flow hedges, net of tax	-	(13)	-	-	(13)
Currency translation differences	-	13	-	-	13
	-	(411)	-	-	(411)

Net income recognised directly in equity					
Profit for the period	-	-	1,749	12	1,761
Total recognised income for the period	-	(411)	1,749	12	1,350
Dividends	-	-	(632)	(15)	(647)
Purchase/sale of treasury shares	-	-	35	-	35
Employee share option schemes:					
- value of employee services	-	-	11	-	11
- proceeds from shares issued	16	-	-	-	16
Repayment of capital to minority shareholders	-	-	-	(50)	(50)
Balance at 31 December 2007	2,730	(60)	9,471	284	12,425

CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders				
	Share capital and premium £m	Other reserves £m	Retained profits £m	Minority interests £m	Total £m
Balance at 31 December 2007	**2,730**	**(60)**	**9,471**	**284**	**12,425**
Movements in available-for-sale financial assets, net of tax:					
- change in fair value	**-**	**(67 4)**	**-**	**-**	**(67 4)**
- transferred to income statement in respect of disposals	**-**	**(18)**	**-**	**-**	**(18)**
- transferred to income statement in respect of impairment	**-**	**44**	**-**	**-**	**44**
Movement in cash flow hedges, net of tax	**-**	**(5)**	**-**	**-**	**(5)**
Currency translation differences	**-**	**28**	**-**	**-**	**28**
Net income recognised directly in equity	**-**	**(625)**	**-**	**-**	**(625)**
Profit for the period	**-**	**-**	**576**	**12**	**588**
Total recognised income for the period	**-**	**(625)**	**576**	**12**	**(37)**
Dividends	**-**	**-**	**(1,394)**	**(10)**	**(1,404)**
Purchase/sale of treasury shares	**-**	**-**	**(6)**	**-**	**(6)**
Employee share option schemes:					
- value of employee services	**-**	**-**	**(2)**	**-**	**(2)**
- proceeds from shares issued	**107**	**-**	**-**	**-**	**107**
Repayment of capital to minority shareholders	**-**	**-**	**-**	**(2)**	**(2)**
Balance at 30 June 2008	**2,837**	**(685)**	**8,645**	**284**	**11,081**

CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

CONSOLIDATED CASH FLOW STATEMENT

	Half-year to 30 June 2008 £m	Half-year to 30 June 2007 £m	Half-year to 31 Dec 2007 £m
Profit before tax	**599**	1,993	2,007
Adjustments for:			
Change in operating assets	**(16,664)**	(4,602)	(12,380)
Change in operating liabilities	**15,042**	9,888	11,653
Non-cash and other items	**(1,535)**	1,081	1,703
Tax paid	**(531)**	(394)	(465)
Net cash (used in) provided by operating activities	**(3,089)**	7,966	2,518
Cash flows from investing activities			
Purchase of available-for-sale financial assets	**(12,864)**	(12,133)	(9,534)
Proceeds from sale and maturity of available-for-sale financial assets	**7,908**	8,946	10,522
Purchase of fixed assets	**(561)**	(874)	(460)
Proceeds from sale of fixed assets	**250**	388	594
Acquisition of businesses, net of cash acquired	**(1)**	(5)	(3)
Disposal of businesses, net of cash disposed	**-**	(26)	1,502
Net cash (used in) provided by investing activities	**(5,268)**	(3,704)	2,621
Cash flows from financing activities			
Dividends paid to equity shareholders	**(1,394)**	(1,325)	(632)
Dividends paid to minority interests	**(10)**	(4)	(15)
Interest paid on subordinated liabilities	**(321)**	(342)	(367)
Proceeds from issue of subordinated liabilities	**2,551**	-	-
Proceeds from issue of ordinary shares	**107**	19	16
Repayment of subordinated liabilities	**-**	(300)	-
Repayment of capital to minority shareholders	**(2)**	(30)	(50)
Net cash provided by (used in) financing activities	**931**	(1,982)	(1,048)
Effects of exchange rate changes on cash and cash equivalents	**180**	(9)	91
Change in cash and cash equivalents	**(7,246)**	2,271	4,182
Cash and cash equivalents at beginning of period	**31,891**	25,438	27,709
Cash and cash equivalents at end of period	**24,645**	27,709	31,891

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

CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Accounting policies, presentation and estimates

These condensed interim financial statements as at and for the half-year to 30 June 2008 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with International Accounting Standard ('IAS ') 34, 'Interim Financial Reporting', as adopted by the European Union. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2007 ('2007 Annual Report and Accounts'), which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Copies of the 2007 Annual Report and Accounts can be found on the Group's website or are available upon request from the Company Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN.

As required by IAS 34, the Group's income tax expense for the six months ended 30 June 2008 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. With this exception, the accounting policies, significant judgements made by management in applying them, and key sources of estimation uncertainty applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its 2007 Annual Report and Accounts. The preparation of interim financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. There have been no significant changes in the bases upon which estimates have been determined, compared to those applied at 31 December 2007 . The Group has reviewed the valuation of its pension schemes and has concluded that no adjustment is required at 30 June 2008 . In accordance with IAS 19' Employee Benefits', the valuations will be formally updated at the year end. Goodwill held in the Group's balance sheet is tested (at least) annually for impairment in the second half of the year. No circumstances have arisen during the half-year to 30 June 2008 to require additional impairment testing.

The Group has had no material or unusual related party or share-based payment transactions during the half-year to 30 June 2008. Related party and share-based payment transactions for the half-year to 30 June 2008 are similar in nature to those for the year ended 31 December 2007. No significant events, other than those disclosed within this document, have occurred between 30 June 2008 and the date of approval of these condensed interim financial statements. A variety of contingent liabilities and commitments arise in the ordinary course of the Group's banking business; there has been no significant change in the volume or nature of such transactions during the half-year to 30 June 2008 . Full details of the Group's related party transactions for the year to 31 December 2007, share-based payment schemes and contingent liabilities and commitments entered into in the normal course of business can be found in the Group's 2007 Annual Report and Accounts.

2. Segmental analysis

Lloyds TSB Group is a leading UK-based financial services group, providing a wide range of banking and financial services in the UK and in certain locations overseas. The Group's activities are organised into three segments: UK Retail Banking, Insurance and Investments and Wholesale and International Banking. Central group items includes the funding cost of certain acquisitions less earnings on capital, central costs and accruals for payment to the Lloyds TSB Foundations.

Services provided by UK Retail Banking encompass the provision of banking and other financial services to personal customers, private banking and mortgages. Insurance and Investments offers life assurance, pensions and savings products, general insurance and asset management services. Wholesale and International Banking provides banking and related services for major UK and multinational companies, banks and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages the Group's activities in financial markets and provides banking and financial services overseas.

As part of Lloyds TSB Group's transition to Basel II on 1 January 2008, the Group has updated its capital and liquidity pricing methodology. The main difference in this approach is to allocate a greater share of certain funding costs, previously allocated to the Central group items segment, to individual divisions. To enable meaningful period-on-period comparisons, the segmental analyses for the half-years to 30 June 2007 and 31 December 2007 have been restated to reflect these changes.

Half-year to 30 June 2008	**UK Retail Banking**	**General insurance**	**Life, pensions and asset management**	**Insurance and Investments**	**Wholesale and International Banking**	**Central group items***	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Interest and similar income*	**4,324**	**12**	**491**	**503**	**5,516**	**(1,630)**	**8,713**
Interest and similar expense*	**(2,334)**	**(9)**	**(209)**	**(218)**	**(4,066)**	**1,552**	**(5,066)**
Net interest income	**1,990**	**3**	**282**	**285**	**1,450**	**(78)**	**3,647**
Other income (net of fee and commission expense)	**862**	**278**	**(1,958)**	**(1,680)**	**489**	**(34)**	**(363)**
Total income	**2,852**	**281**	**(1,676)**	**(1,395)**	**1,939**	**(112)**	**3,284**
Insurance claims	**-**	**(90)**	**1,434**	**1,344**	**-**	**-**	**1,344**
Total income, net of insurance claims	**2,852**	**191**	**(242)**	**(51)**	**1,939**	**(112)**	**4,628**
Operating expenses	**(1,286)**	**(79)**	**(233)**	**(312)**	**(1,300)**	**(32)**	**(2,930)**
Trading surplus (deficit)	**1,566**	**112**	**(475)**	**(363)**	**639**	**(144)**	**1,698**
Impairment	**(655)**	**-**	**-**	**-**	**(444)**	**-**	**(1,099)**
Profit (loss) before tax	**911**	**112**	**(475)**	**(363)**	**195**	**(144)**	**599**
External revenue	**4,838**	**594**	**(1,043)**	**(449)**	**4,393**	**(81)**	**8,701**
Inter-segment revenue*	**570**	**34**	**12**	**46**	**1,706**	**(2,322)**	**-**

Segment revenue	**5,408**	**628**	**(1,031)**	**(403)**	**6,099**	**(2,403)**	**8,701**

*Central group items on this and the following page includes inter-segment consolidation adjustments within interest and similar income and within interest and similar expense as follows: interest and similar income £(2,475) million (2007H1: £(1,495) million ; 2007H2: £(1,806) million); interest and similar expense £2,475 million (2007H1: £1,495 million; 2007H2: £1,806 million). There is no impact on net interest income. Similarly, Central group items includes inter-segment revenue adjustments of £(3,121) million (2007H1: £(2,011) million ; 2007H2: £(2,255) million).

2. Segmental analysis (continued)

Half-year to 30 June 2007	UK Retail Banking £m	General Insurance £m	Life, pensions and asset management £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items* £m	Total £m
Interest and similar income*	3,729	10	459	469	4,617	(833)	7,982
Interest and similar expense*	(1,931)	(9)	(387)	(396)	(3,488)	679	(5,136)
Net interest income	1,798	1	72	73	1,129	(154)	2,846
Other income (net of fee and commission expense)	883	286	4,497	4,783	1,017	182	6,865
Total income	2,681	287	4,569	4,856	2,146	28	9,711
Insurance claims	-	(152)	(3,969)	(4,121)	-	-	(4,121)
Total income, net of insurance claims	2,681	135	600	735	2,146	28	5,590
Operating expenses	(1,297)	(79)	(256)	(335)	(1,125)	(3)	(2,760)
Trading surplus	1,384	56	344	400	1,021	25	2,830
Impairment	(627)	-	-	-	(210)	-	(837)
Profit before tax	757	56	344	400	811	25	1,993
External revenue	4,361	639	5,037	5,676	4,995	116	15,148
Inter-segment revenue*	415	22	97	119	882	(1,416)	-
Segment revenue	4,776	661	5,134	5,795	5,877	(1,300)	15,148

Half-year to 31 December 2007	UK Retail Banking £m	General Insurance £m	Life, pensions and asset management £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items* £m	Total £m
Interest and similar income*	4,235	13	581	594	5,145	(1,082)	8,892
Interest and similar expense*	(2,338)	(9)	(295)	(304)	(3,865)	868	(5,639)
Net interest income	1,897	4	286	290	1,280	(214)	3,253
Other income (net of fee and commission expense)	914	268	3,146	3,414	756	180	5,264
Total income	2,811	272	3,432	3,704	2,036	(34)	8,517
Insurance claims	-	(150)	(3,251)	(3,401)	-	-	(3,401)
Total income, net of insurance claims	2,811	122	181	303	2,036	(34)	5,116

Operating expenses	(1,327)	(75)	(245)	(320)	(1,157)	(3)	(2,807)
Trading surplus (deficit)	1,484	47	(64)	(17)	879	(37)	2,309
Impairment	(597)	-	-	-	(362)	-	(959)
Profit on sale of businesses	-	-	272	272	385	-	657
Profit (loss) before tax	887	47	208	255	902	(37)	2,007
External revenue	4,771	596	3,817	4,413	5,087	184	14,455
Inter-segment revenue*	543	27	84	111	605	(1,259)	-
Segment revenue							