

Lloyds TSB Bank plc

Interim Management Report
For the half-year to 30 June 2008

Member of Lloyds TSB Group

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 44, note 9)
- a provision in respect of certain historic US dollar payments (page 39, note 6)
- the results of discontinued businesses (page 47, note 11)
- profit on sale of businesses (page 37, 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 2. 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.

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FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds TSB Bank 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 of Lloyds TSB Group plc 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.

SUMMARY OF RESULTS

	Half-year to 30 June 2008 £m	Half-year to 30 June 2007 £m	Change %	Half-year to 31 Dec 2007 £m
Results – statutory				
Total income, net of insurance claims	4,669	5,600	(17)	5,156
Operating expenses	2,910	2,740	(6)	2,788
Trading surplus	1,759	2,860	(38)	2,368
Impairment	1,099	837	(31)	959
Profit before tax	660	2,023	(67)	2,066
Profit attributable to equity shareholders	613	1,573	(61)	1,811
Results – continuing businesses basis				
Total income, net of insurance claims				
- Before impact of market dislocation	5,945	5,402	10	5,718
- Impact of market dislocation	(477)	-		(188)
	5,468	5,402	1	5,530
Operating expenses	2,730	2,598	(5)	2,693
Trading surplus				
- Before impact of market dislocation	3,215	2,804	15	3,025
- Impact of market dislocation	(477)	-		(188)
	2,738	2,804	(2)	2,837
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	2,224	1,967	13	2,158
- Impact of market dislocation	(585)	-		(280)
	1,639	1,967	(17)	1,878
Profit attributable to equity shareholders	1,149	1,487	(23)	1,347

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 10)	911	793	15	927
Insurance and Investments (page 14)	431	330	31	418
Wholesale and International Banking (page 20)				
- Before impact of market dislocation	960	789	22	791
- Impact of market dislocation	(585)	-		(280)
	375	789	(52)	511
Central group items	(78)	55		22
Profit before tax – continuing businesses				
- Before impact of market dislocation	2,224	1,967	13	2,158
- Impact of market dislocation	(585)	-		(280)
	1,639	1,967	(17)	1,878
Volatility (page 44, note 9)				
- Insurance	(510)	9		(286)
- Policyholder interests (page 45, note 9)	(289)	(63)		(159)
Discontinued businesses (page 47, note 11)	-	146		16
Profit on sale of businesses (page 37, note 5)	-	-		657
Provision in respect of certain historic US dollar payments	(180)	-		-
Settlement of overdraft claims	-	(36)		(40)
Profit before tax – statutory	660	2,023	(67)	2,066
Taxation (page 39, note 7)	(35)	(430)		(243)
Profit for the period	625	1,593	(61)	1,823
Profit attributable to minority interests	12	20		12
Profit attributable to equity shareholders	613	1,573	(61)	1,811

[†]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	11,497	12,387	(7)	13,155
Total assets	367,941	353,397	4	353,543
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	162,587	144,866	12	156,713
Risk asset ratios (Basel II basis)				
Total capital	12.0%	n/a		12.1%
Tier 1 capital	8.2%	n/a		9.4%
Core tier 1 capital	6.6%	n/a		8.1%

OVERVIEW OF RESULTS

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 61 per cent to £613 million 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 67 per cent to £660 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 £257 million, or 13 per cent, to £2,224 million, underpinned by good relationship banking momentum. On this basis, revenue growth of 10 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 10 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 8), increased by £655 million, or 24 per cent, to £3,355 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 £163 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 increased by 9 basis points, to 2.84 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 2 basis points.

Other income, net of insurance claims and excluding insurance grossing, decreased by £591 million, or 22 per cent, to £2,093 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 £2,730 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 48.1 per cent to 45.9 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). 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 35, 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 2008 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 million) related to the ABS in Cancara, our hybrid Asset Backed Commercial Paper conduit. The residual assets comprised £3,231 million Student Loan ABS, predominantly guaranteed by the US Government, £8,342 million 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 million 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 2008, 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 2008 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 £510 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 £35 million, which was an effective tax rate of 5.3 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 39, 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 12.0 per cent, a tier 1 ratio of 8.2 per cent and a core tier 1 ratio of 6.6 per cent (page 46, note 10). 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. 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 40. There have been no material or unusual related party transactions during the half-year (page 31, 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 £m	Insurance and Investments** £m	Wholesale and International Banking £m	Central group items £m	Group excluding insurance gross up £m	Insurance gross up** £m	Group £m
Net interest income	1,990	(33)	1,450	(52)	3,355	313	3,668
Other income	862	846	489	(14)	2,183	(1,727)	456
Total income	2,852	813	1,939	(66)	5,538	(1,414)	4,124
Insurance claims	-	(90)	-	-	(90)	1,434	1,344
Total income, net of insurance claims	2,852	723	1,939	(66)	5,448	20	5,468
Operating expenses	(1,286)	(302)	(1,120)	(12)	(2,720)	(10)	(2,730)
Trading surplus (deficit)	1,566	421	819	(78)	2,728	10	2,738
Impairment	(655)	-	(444)	-	(1,099)	-	(1,099)
Profit (loss) before tax*	911	421	375	(78)	1,629	10	1,639
Volatility							
- Insurance	-	(510)	-	-	(510)	-	(510)
- Policyholder interests	-	-	-	-	-	(289)	(289)
Provision in respect of certain historic US dollar payments	-	-	(180)	-	(180)	-	(180)
Profit (loss) before tax	911	(89)	195	(78)	939	(279)	660

Half-year to 30 June 2007†	UK Retail Banking £m	Insurance and Investments** £m	Wholesale and International Banking £m	Central group items £m	Group excluding insurance gross up £m	Insurance gross up** £m	Group £m
Net interest income	1,798	(56)	1,109	(151)	2,700	100	2,800
Other income	883	833	931	189	2,836	3,380	6,216
Total income	2,681	777	2,040	38	5,536	3,480	9,016
Insurance claims	-	(152)	-	-	(152)	(3,462)	(3,614)
Total income, net of insurance claims	2,681	625	2,040	38	5,384	18	5,402
Operating expenses	(1,261)	(307)	(1,041)	17	(2,592)	(6)	(2,598)
Trading surplus	1,420	318	999	55	2,792	12	2,804
Impairment	(627)	-	(210)	-	(837)	-	(837)
Profit before tax*	793	318	789	55	1,955	12	1,967
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	55	2,069	(46)	2,023

SUMMARISED SEGMENTAL ANALYSIS (continued)

Half-year to 31 December 2007 [†]	UK Retail Banking £m	Insurance and Investments** £m	Wholesale and International Banking £m	Central group items £m	Group excluding insurance gross up £m	Insurance gross up** £m	Group £m
Net interest income	1,897	(50)	1,271	(183)	2,935	321	3,256
Other income	914	908	713	189	2,724	2,853	5,577
Total income	2,811	858	1,984	6	5,659	3,174	8,833
Insurance claims	-	(150)	-	-	(150)	(3,153)	(3,303)
Total income, net of insurance claims	2,811	708	1,984	6	5,509	21	5,530
Operating expenses	(1,287)	(304)	(1,111)	16	(2,686)	(7)	(2,693)
Trading surplus (deficit)	1,524	404	873	22	2,823	14	2,837
Impairment	(597)	-	(362)	-	(959)	-	(959)
Profit (loss) before tax*	927	404	511	22	1,864	14	1,878
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	22	2,227	(161)	2,066

*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 £78 million compared to a positive contribution of £55 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	£112.7bn	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 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 retail bank 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

UK RETAIL BANKING (continued)

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 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.

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 2008 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 possession and new reposessions 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

Continuing businesses, excluding volatility and profit on sale of businesses	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	(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	708
Operating expenses	(302)	(307)	2	(304)
Insurance grossing adjustment (page 9)	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)	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)	3,997
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	274	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)
	182	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	£5,421m		£5,365m
Post-tax return on embedded value*	11.7%	10.8%		10.4%

*Excluding volatility and other items (page 44, 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.

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 of 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 £m	Half-year to 30 June 2007 [†] £m	Change %	Half-year to 31 Dec 2007 [†] £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	£151.4bn	14	£163.3bn
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 £m	Half-year to 30 June 2007 [†] £m	Change %	Half-year to 31 Dec 2007 [†] £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)	245
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)

Corporate 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	27	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)	(167)	(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	470
Other income	227	208	9	221
Total income	702	646	9	691
Operating expenses	(394)	(375)	(5)	(394)
Trading surplus	308	271	14	297
Impairment	(86)	(47)	(83)	(52)
Profit before tax	222	224	(1)	245

[†]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	150
Other income	230	220	5	203
Total income	374	353	6	353
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	(5,040)	(5,133)	(5,608)
Net interest income	3,673	2,849	3,284
Fee and commission income	1,582	1,597	1,630
Fee and commission expense	(351)	(301)	(299)
Net fee and commission income	1,231	1,296	1,331
Net trading income	(4,802)	2,371	765
Insurance premium income	2,914	2,535	2,895
Other operating income	309	670	282
Other income	(348)	6,872	5,273
Total income	3,325	9,721	8,557
Insurance claims	1,344	(4,121)	(3,401)
Total income, net of insurance claims	4,669	5,600	5,156
Operating expenses	(2,910)	(2,740)	(2,788)
Trading surplus	1,759	2,860	2,368
Impairment	(1,099)	(837)	(959)
Profit on sale of businesses	-	-	657
Profit before tax	660	2,023	2,066
Taxation	(35)	(430)	(243)
Profit for the period	625	1,593	1,823
Profit attributable to minority interests	12	20	12
Profit attributable to equity shareholders	613	1,573	1,811
Profit for the period	625	1,593	1,823

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	52,156	68,666	58,096
Derivative financial instruments	9,971	6,717	8,688
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	5,480	5,453	5,046
Total assets	367,941	353,397	353,543
Equity and liabilities			
Deposits from banks	40,207	40,017	39,091
Customer accounts	162,587	144,866	156,713
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	10,143	6,992	7,751
Debt securities in issue	56,678	48,069	49,828
Liabilities arising from insurance contracts and participating investment contracts	35,865	42,138	38,192
Liabilities arising from non-participating investment contracts	16,331	25,609	18,197
Unallocated surplus within insurance businesses	433	628	554
Other liabilities	11,384	12,130	9,751
Retirement benefit obligations	1,925	2,332	2,144
Current tax liabilities	44	865	414
Deferred tax liabilities	626	1,223	949
Other provisions	381	233	209
Subordinated liabilities	15,149	11,978	12,437
Total liabilities	356,160	340,673	340,104
Equity			
Share capital	1,542	1,542	1,542
Share premium account	2,960	2,960	2,960
Other reserves	(1,036)	-	(411)
Retained profits	8,031	7,885	9,064
Shareholders' equity	11,497	12,387	13,155
Minority interests	284	337	284
Total equity	11,781	12,724	13,439
Total equity and liabilities	367,941	353,397	353,543

CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders			Minority interests	Total
	Share capital and premium £m	Other reserves £m	Retained profits £m	£m	£m
Balance at 1 January 2007	4,502	(15)	7,637	352	12,476
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	-	-	1,573	20	1,593
Total recognised income for the period	-	15	1,573	19	1,607
Dividends	-	-	(1,325)	(4)	(1,329)
Repayment of capital to minority shareholders	-	-	-	(30)	(30)
Balance at 30 June 2007	4,502	-	7,885	337	12,724
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
Net income recognised directly in equity	-	(411)	-	-	(411)
Profit for the period	-	-	1,811	12	1,823
Total recognised income for the period	-	(411)	1,811	12	1,412
Dividends	-	-	(632)	(15)	(647)
Repayment of capital to minority shareholders	-	-	-	(50)	(50)
Balance at 31 December 2007	4,502	(411)	9,064	284	13,439

CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity shareholders			Minority interests £m	Total £m
	Share capital and premium £m	Other reserves £m	Retained profits £m		
Balance at 31 December 2007	4,502	(411)	9,064	284	13,439
Movements in available-for-sale financial assets, net of tax:					
- change in fair value	-	(674)	-	-	(674)
- 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	-	-	613	12	625
Total recognised income for the period	-	(625)	613	12	-
Dividends	-	-	(1,646)	(10)	(1,656)
Repayment of capital to minority shareholders	-	-	-	(2)	(2)
Balance at 30 June 2008	4,502	(1,036)	8,031	284	11,781

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	660	2,023	2,066
Adjustments for:			
Change in operating assets	(16,626)	(2,838)	(12,275)
Change in operating liabilities	15,403	6,941	11,666
Non-cash and other items	(1,604)	1,154	1,535
Tax paid	(542)	(394)	(433)
Net cash (used in) provided by operating activities	(2,709)	6,886	2,559
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	(1,646)	(1,325)	(632)
Dividends paid to minority interests	(10)	(4)	(15)
Interest paid on subordinated liabilities	(342)	(341)	(392)
Proceeds from issue of subordinated liabilities	2,551	1,098	-
Repayment of subordinated liabilities	-	(300)	-
Repayment of capital to minority shareholders	(2)	(30)	(50)
Net cash provided by (used in) financing activities	551	(902)	(1,089)
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

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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 Lloyds TSB Group's website or are available upon request from the Company Secretary's Department, Lloyds TSB Bank 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 Bank 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 and central costs.

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 Bank 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 £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*	4,324	12	491	503	5,516	(1,630)	8,713
Interest and similar expense*	(2,334)	(9)	(209)	(218)	(4,066)	1,578	(5,040)
Net interest income	1,990	3	282	285	1,450	(52)	3,673
Other income (net of fee and commission expense)	862	278	(1,963)	(1,685)	489	(14)	(348)
Total income	2,852	281	(1,681)	(1,400)	1,939	(66)	3,325
Insurance claims	-	(90)	1,434	1,344	-	-	1,344
Total income, net of insurance claims	2,852	191	(247)	(56)	1,939	(66)	4,669
Operating expenses	(1,286)	(79)	(233)	(312)	(1,300)	(12)	(2,910)
Trading surplus (deficit)	1,566	112	(480)	(368)	639	(78)	1,759
Impairment	(655)	-	-	-	(444)	-	(1,099)
Profit (loss) before tax	911	112	(480)	(368)	195	(78)	660
External revenue	4,838	594	(1,048)	(454)	4,393	(61)	8,716
Inter-segment revenue*	570	34	12	46	1,706	(2,322)	-
Segment revenue	5,408	628	(1,036)	(408)	6,099	(2,383)	8,716

*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)	682	(5,133)
Net interest income	1,798	1	72	73	1,129	(151)	2,849
Other income (net of fee and commission expense)	883	286	4,497	4,783	1,017	189	6,872
Total income	2,681	287	4,569	4,856	2,146	38	9,721
Insurance claims	-	(152)	(3,969)	(4,121)	-	-	(4,121)
Total income, net of insurance claims	2,681	135	600	735	2,146	38	5,600
Operating expenses	(1,297)	(79)	(256)	(335)	(1,125)	17	(2,740)
Trading surplus	1,384	56	344	400	1,021	55	2,860
Impairment	(627)	-	-	-	(210)	-	(837)
Profit before tax	757	56	344	400	811	55	2,023
External revenue	4,361	639	5,037	5,676	4,995	123	15,155
Inter-segment revenue*	415	22	97	119	882	(1,416)	-
Segment revenue	4,776	661	5,134	5,795	5,877	(1,293)	15,155

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)	899	(5,608)
Net interest income	1,897	4	286	290	1,280	(183)	3,284
Other income (net of fee and commission expense)	914	268	3,146	3,414	756	189	5,273
Total income	2,811	272	3,432	3,704	2,036	6	8,557
Insurance claims	-	(150)	(3,251)	(3,401)	-	-	(3,401)
Total income, net of insurance claims	2,811	122	181	303	2,036	6	5,156
Operating expenses	(1,327)	(75)	(245)	(320)	(1,157)	16	(2,788)
Trading surplus (deficit)	1,484	47	(64)	(17)	879	22	2,368
Impairment	(597)	-	-	-	(362)	-	(959)
Profit on sale of businesses	-	-	272	272	385	-	657
Profit before tax	887	47	208	255	902	22	2,066
External revenue	4,771	596	3,817	4,413	5,087	193	14,464
Inter-segment revenue*	543	27	84	111	605	(1,259)	-
Segment revenue	5,314	623	3,901	4,524	5,692	(1,066)	14,464

3. Balance sheet information

	30 June 2008 £m	30 June 2007 £m	31 Dec 2007 £m
Deposits – customer accounts			
Sterling:			
Non-interest bearing current accounts	3,328	3,610	3,155
Interest bearing current accounts	43,515	42,426	42,858
Savings and investment accounts	73,460	66,436	70,003
Other customer deposits	23,399	19,271	24,829
Total sterling	143,702	131,743	140,845
Currency	18,885	13,123	15,868
Total deposits – customer accounts	162,587	144,866	156,713
Loans and advances to customers			
Agriculture, forestry and fishing	3,373	2,928	3,226
Energy and water supply	2,203	2,258	2,102
Manufacturing	9,832	8,023	8,385
Construction	3,151	2,548	2,871
Transport, distribution and hotels	12,613	10,970	11,573
Postal and communications	1,261	924	946
Property companies	20,937	16,062	17,576
Financial, business and other services	35,246	26,082	29,707
Personal : mortgages	109,783	100,140	102,739
: other	23,932	22,473	22,988
Lease financing	4,726	4,948	4,686
Hire purchase	5,157	5,063	5,423
	232,214	202,419	212,222
Allowance for impairment losses on loans and advances	(2,593)	(2,238)	(2,408)
Total loans and advances to customers	229,621	200,181	209,814

Total loans and advances to customers in our international businesses totalled £7,963 million (30 June 2007: £5,635 million; 31 December 2007: £6,291 million).

4. Credit market positions in Corporate Markets

Lloyds TSB's high quality business model means that the Group has relatively limited exposure to assets affected by current capital markets uncertainties. The following table shows credit market positions in Corporate Markets, on both a gross and net basis.

Credit market positions – 30 June 2008

	30 June 2008		2008 H1	31 Dec 2007	
	Net exposure £m	Gross exposure £m	Write-down £m	Net exposure £m	Gross exposure £m
US sub-prime ABS-direct	-	-	-	-	-
ABS CDOs					
- unhedged	70	70	62	130	130
- monoline hedged	-	297	170	-	470
- major global bank cash collateralised	-	1,382	-	-	1,861
Structured investment vehicles					
- capital notes	35	35	43	78	78
- liquidity backup facilities	85	85	3	370	370
Trading portfolio					
- ABS trading book	417	417	97	474	474
- secondary loan trading	479	836	40	665	863
- other assets*	3,622	3,622	170	3,895	3,895
			585		

*Primarily high quality senior bank and corporate assets; also includes £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

	30 June 2008 £m	31 Dec 2007 £m	Reserves adjustment 2008H1 £m
Cancara	7,645	8,268	(448)
- US sub-prime – nil			
- Alt-A – £424 million (100% AAA/Aaa)			
- CMBS – £1,231 million (100% AAA/Aaa)			
Student Loan ABS	3,231	3,164	(139)
- US Government guaranteed			
Treasury assets	8,342	4,142	(6)
- Government bond and short-dated bank commercial paper			
Other assets	5,196	4,088	(52)
- Predominantly major bank senior paper and high quality ABS			
Total – Corporate Markets	24,414	19,662	(645)
Other businesses	618	534	15
Total – Group	25,032	20,196	(630)

4. Credit market positions in Corporate Markets (continued)

Valuation of financial instruments

The fair values of financial instruments are determined by reference to observable market prices where these are available and the market is active. Where market prices are not available or are unreliable because of poor liquidity, fair values are determined using valuation techniques including cash flow models which, to the extent possible, use observable market parameters. The process of calculating the fair value using valuation techniques may necessitate the estimation of certain pricing parameters, assumptions or model characteristics.

At 30 June 2008, the fair values of £756 million (31 December 2007: £874 million) of Corporate Markets' trading and other financial assets classified as fair value through profit or loss were valued using unobservable inputs. In respect of these assets, during the six months to 30 June 2008, negative £117 million (six months to 31 December 2007: negative £105 million) was recognised in the income statement relating to the change in their fair values.

The fair values of the Group's venture capital investments in Corporate Markets which at 30 June 2008 amounted to £841 million (31 December 2007: £696 million) and are included within trading and other financial assets classified at fair value through profit or loss are determined using valuation techniques which follow British Venture Capital Association (BVCA) guidelines.

Other valuations use indicative price quotes received from brokers or lead managers, as appropriate, or techniques commonly used by market participants such as discounted cash flow analysis and pricing models.

There are no individually significant assumptions used within those models.

Cancara

Cancara is the Group's hybrid Asset Backed Commercial Paper conduit. At 30 June 2008, the carrying amount of Cancara's assets comprised £7,645 million ABS (31 December 2007: £8,268 million) and £4,008 million client receivables transactions (31 December 2007: £3,723 million). Cancara is fully consolidated in the Group's accounts and represents the Group's only significant conduit.

At 30 June 2008, 92 per cent of the ABS bonds in Cancara were 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 2008 the client receivables portfolio included no US sub-prime mortgage exposure (31 December 2007: £115 million). At 30 June 2008, Alt-A exposures within the conduit were £424 million (31 December 2007: £619 million).

During the six months to 30 June 2008, an adjustment of £448 million (six months to 31 December 2007: £237 million) was made against the available-for-sale reserve in respect of ABS.

Credit default swap exposure to monolines

At 30 June 2008, Corporate Markets had fair value exposure to two monoline financial guarantors in the form of credit default swap (CDS) protection bought against a CDO of ABS of £500 million and a £200 million CLO. At 30 June 2008, Corporate Markets' exposure to these CDS was £342 million. During the six months to 30 June 2008, adverse credit valuation adjustments relating to these CDS in the amount of £183 million (six months to 31 December 2007: £25 million) were recognised in the income statement.

4. Credit market positions in Corporate Markets (continued)**Leveraged finance – underwriting commitments**

At 30 June 2008, Corporate Markets' not-yet-syndicated leveraged loan underwriting commitments amounted to £1,023 million of which £756 million were originated before the market dislocation (31 December 2007: £756 million). All of the underlying assets are performing satisfactorily.

Impairment of available-for-sale financial assets

Impairment losses in respect of available-for-sale financial assets transferred from reserves to the income statement for the six months to 30 June 2008 totalled £62 million (six months to 31 December 2007: £70 million).

In determining whether an impairment loss has been incurred in respect of an available-for-sale financial asset, the Group performs an objective review of the current financial circumstances and future prospects of the issuer and considers whether there has been a significant or prolonged decline in the fair value of that asset below its cost. This consideration requires management judgement. Among factors considered by the Group is whether the decline in fair value is a result of a change in the quality of the asset or a downward movement in the market as a whole. An assessment is performed of the future cash flows expected to be realised from the asset, taking into account, where appropriate, the quality of underlying security and credit protection available.

For impaired debt instruments which are classified as available-for-sale financial assets, additional impairment losses are recognised when it is determined there has been a further negative impact on expected future cash flows. A reduction in fair value caused by general widening of credit spreads would not, of itself, result in additional impairment.

5. Profit on sale of businesses

During the second half of 2007, the Group disposed of Lloyds TSB Registrars, its share registration business; Abbey Life, the UK life operation which was closed to new business in 2000; and Dutton-Forshaw, its medium-size car dealership. In addition, provision was made for payments under an indemnity given in relation to a business sold in an earlier year. A breakdown is provided below:

	Half-year to 30 June 2008 £m	Half-year to 30 June 2007 £m	Half-year to 31 Dec 2007 £m
Lloyds TSB Registrars	-	-	407
Abbey Life	-	-	272
Other	-	-	(22)
	-	-	657

6. Legal and regulatory matters

During the ordinary course of business the Group is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case. No provisions are held against such cases; however the Group does not currently expect the final outcome of these cases to have a material adverse effect on its financial position.

In the UK and elsewhere, there is continuing political and regulatory scrutiny of financial services. On 5 June 2008 the Competition Commission published its provisional findings and remedies notice in the Payment Protection Insurance Inquiry and, following consultation, is expected to report by December 2008. The UK Office of Fair Trading ('OFT') is carrying out an investigation into certain current account charges which are also subject to a legal test case (see below). In addition, on 16 July 2008 the OFT published a market study report on personal current accounts. The OFT is now engaging in a period of consultation until 31 October 2008. At the conclusion of the consultation period, the OFT will publish a summary of the responses received, and then aims to publish a further report in early 2009 which will contain recommendations for the banking industry. The OFT is also investigating interchange fees charged by some card networks in parallel with the European Commission's own investigation into Visa cross-border interchange fees, the European Commission having issued its decision in the MasterCard cross-border interchange case, which decision is now under appeal to the European Court of First Instance. At the same time regulators are considering the review of retail distribution and UK financial stability and depositor protection proposals. It is not presently possible to assess the cost or income impact of these inquiries or any connected matters on the Group until the outcome is known.

In addition, a number of EU directives, including the Unfair Commercial Practices Directive and Payment Services Directive are currently being implemented in the UK. The EU is also considering regulatory proposals for, inter alia, Consumer Credit, Mortgage Credit, Single European Payments Area, Retail Financial Services Review and capital adequacy requirements for insurance companies (Solvency II).

On 27 July 2007, following agreement between the OFT and a number of UK financial institutions, the OFT issued High Court legal proceedings against seven institutions, including Lloyds TSB Bank plc, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008 the High Court determined, in relation to the current terms and conditions of those financial institutions (including Lloyds TSB Bank plc), that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness. On 23 May 2008 Lloyds TSB Bank plc, along with the other relevant financial institutions, was given permission to appeal the finding that the relevant charges are assessable for fairness. A further hearing was held on 7 to 9 July 2008 to consider the position in relation to those financial institutions' (including Lloyds TSB Bank plc's) historic terms and conditions and judgment is currently awaited. It is likely that further hearings will be required and, if appeals are pursued, the proceedings may take a number of years to conclude. The Financial Services Authority ('FSA') has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also generally currently stayed, pending the outcome of the legal proceedings initiated by the OFT.

6. Legal and regulatory matters (continued)

The Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the Court's determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Group. The ultimate impact of the litigation on the Group can only be known at its conclusion.

There has been increased scrutiny of the financial institutions sector, especially in the US, with respect to combating money laundering and terrorist financing and enforcing compliance with economic sanctions. The Office of Foreign Assets Control ('OFAC') administers US laws and regulations in relation to US economic sanctions against designated foreign countries, nationals and others and the Group has been conducting a review of its conduct with respect to historic US dollar payments involving countries, persons or entities subject to those sanctions. The Group has provided information relating to its review of such historic payments to a number of authorities including OFAC, the US Department of Justice and the New York County District Attorney's office which, along with other authorities, have been reported to be conducting a broader review of sanctions compliance by non-US financial institutions. 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.

7. Taxation

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge is given below:

	Half-year to 30 June 2008 £m	Half-year to 30 June 2007 £m	Half-year to 31 Dec 2007 £m
Profit before tax	660	2,023	2,066
Tax charge thereon at UK corporation tax rate of 28.5% (2007: 30%)	188	607	620
Factors affecting charge:			
Disallowed and non-taxable items	29	(4)	(17)
Overseas tax rate differences	3	(5)	1
Gains exempted or covered by capital losses	(2)	(36)	(238)
Policyholder interests	(207)	(51)	(122)
Corporation tax rate change	-	(89)	(21)
Other items	24	8	20
Tax charge	35	430	243

8. Principal risks and uncertainties

The most significant risks likely to be faced by the Group in the second half of the year are:

- Credit risk, reflecting the risk inherent in our lending businesses that is exacerbated at a time when the UK economy is experiencing a marked slowdown which in turn could lead to a recession. In mortgages, a reduction in house price indices is expected to lead to an increase in impairment levels. Wholesale credit markets remain volatile and dislocated. The market dislocation is beginning to impact the real economy, which could result in a further worsening of the business environment and a consequent increase in impairment levels, and in further mark-to-market adjustments in the Group's portfolio of trading and available-for-sale assets.
- Market risk arising in the Insurance and Investments division, the Wholesale and International Banking division and the Group's pension schemes with respect to adverse movements in equity markets, credit markets and interest rates which has a consequent effect upon the value of assets. The value of pension scheme liabilities is exposed to real interest rates and credit spreads. These asset and liability risks could impact the Group adversely.
- Legal and regulatory risk, reflecting the legal and regulatory environment in which the Group operates and the volume and pace of change from within the UK and the rest of the world. This impacts the Group, both operationally in terms of cost of compliance with uncertainty about legal and regulatory expectations, and strategically through pressure on key earnings streams. The latter could potentially result in changes to business and pricing models, particularly in the UK retail market. Our business planning processes continue to reflect changes in the legal and regulatory environment.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors listed below (being all the directors of Lloyds TSB Bank plc) confirm that to the best of their knowledge this condensed set of financial statements has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the six months ended 30 June 2008 and their impact on the condensed interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2008 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by

J Eric Daniels
Group Chief Executive
29 July 2008

Lloyds TSB Bank plc board of directors

Non-Executive Directors

Sir Victor Blank

Wolfgang C G Berndt

Ewan Brown CBE FRSE

Jan P du Plessis

Philip N Green

Sir Julian Horn-Smith

Lord Leitch

Sir David Manning GCMG CVO

Executive Directors

J Eric Daniels

Archie G Kane

G Truett Tate

Helen A Weir CBE

INDEPENDENT REVIEW REPORT TO LLOYDS TSB BANK PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008, which comprises the income statement, balance sheet, statement of changes in equity, cash flow statement and related notes 1 to 8. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standard as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Southampton, England
29 July 2008

ADDITIONAL INFORMATION

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9. Volatility

Insurance volatility

The Group's insurance businesses have liability products that are supported by substantial holdings of investments, including equities, property and fixed interest investments, all of which are subject to variations in their value. The value of the liabilities does not move exactly in line with changes in the value of the investments, yet IFRS requires that the changes in both the value of the liabilities and investments be reflected within the income statement. As these investments are substantial and movements in their value can have a significant impact on the profitability of the Insurance and Investments division, management believes that it is appropriate to disclose the division's results on the basis of an expected return in addition to the actual return. The difference between the actual return on these investments and the expected return based upon economic assumptions made at the beginning of the year is included within insurance volatility.

Changes in market variables also affect the realistic valuation of the guarantees and options embedded within products written in the Scottish Widows With Profits Fund, the value of the in-force business and the value of shareholders' funds. Fluctuations in these values caused by changes in market variables, including market spreads reflecting credit risk premia, are also included within insurance volatility. These market credit spreads represent the gap between the yield on corporate bonds and the yield on government bonds, and reflect the market's assessment of credit risk. Changes in the credit spreads affect the value of the in-force business asset in respect of the annuity portfolio.

The expected investment returns used to determine the normalised profit of the business, which are based on prevailing market rates and published research into historic investment return differentials, are set out below:

	2008 %	2007 %
Gilt yields (gross)	4.55	4.62
Equity returns (gross)	7.55	7.62
Dividend yield	3.00	3.00
Property return (gross)	7.55	7.62
Corporate bonds in unit-linked and with-profits funds (gross)	5.15	5.22
Fixed interest investments backing annuity liabilities (gross)	5.56	5.09

During the six months to 30 June 2008, profit before tax included negative insurance volatility of £510 million, being a credit of £5 million to net interest income and a charge of £515 million to other income (2007H1: positive volatility of £9 million, being a credit of £2 million to net interest income and a credit of £7 million to other income; 2007H2: negative volatility of £286 million, being a credit of £5 million to net interest income and a charge of £291 million to other income).

This charge mainly reflects the significant falls in global equities markets in the first half of the year, which resulted in total returns some 15 per cent lower than expected, and falls in the UK bond market, which resulted in returns some 6 per cent lower than expected. These lower than expected returns reduced the value of in-force business held on the balance sheet. The widening of corporate bond credit spreads further reduced the market consistent value of the annuity portfolio. Lower equities and bond prices also affected the valuation of the Group's investments held within the funds attributable to the shareholder; there was no exposure to assets held at fair value through profit or loss valued using unobservable market inputs.

9. Volatility (continued)

Policyholder interests volatility

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

The most significant of these additional sources of volatility is policyholder tax. Accounting standards require that tax on policyholder investment returns should be included in the Group's tax charge rather than being offset against the related income. The impact is, therefore, to either increase or decrease profit before tax with a corresponding change in the tax charge. Other sources of volatility include the minorities' share of the profits earned by investment vehicles which are not wholly owned by the long-term assurance funds.

During the six months to 30 June 2008, profit before tax included negative policyholder interests volatility of £289 million, being a charge to other income (2007H1: negative volatility of £63 million, being a charge to other income; 2007H2: negative volatility of £159 million, being a charge to other income). In the first half of 2008, substantial policyholder tax losses have been generated as a result of a fall in property, gilt, bond and equity values. These losses reduce future policyholder tax liabilities and have led to a policyholder tax credit during the half-year.

10. Capital ratios (Basel II)

	30 June 2008 £m	31 Dec 2007 £m
Tier 1		
Share capital and reserves	11,995	13,677
Regulatory post-retirement benefit adjustments	546	704
Other items	(52)	(19)
Available-for-sale revaluation reserve and cash flow hedging reserve	1,059	402
Goodwill	(2,358)	(2,358)
Other deductions	(980)	(929)
Core tier 1 capital	10,210	11,477
Preference share capital	502	498
Innovative tier 1 capital instruments	2,578	1,474
Less: restriction in amount eligible	(603)	-
Total tier 1 capital	12,687	13,449
Tier 2		
Undated loan capital	4,555	4,460
Dated loan capital	6,207	5,047
Innovative capital restricted from tier 1	603	-
Collectively assessed provisions	8	12
Available-for-sale revaluation reserve in respect of equities	10	12
Other deductions	(979)	(928)
Total tier 2 capital	10,404	8,603
	23,091	22,052
Supervisory deductions		
Life and pensions businesses	(4,018)	(4,373)
Other deductions	(601)	(491)
Total supervisory deductions	(4,619)	(4,864)
Total capital	18,472	17,188
Risk-weighted assets	£bn	£bn
Credit risk	136.6	127.2
Market and counterparty risk	5.7	5.3
Operational risk	11.6	10.1
Total risk-weighted assets	153.9	142.6
Risk asset ratios		
Core tier 1	6.6%	8.1%
Tier 1	8.2%	9.4%
Total capital	12.0%	12.1%

11. Discontinued businesses

Whilst not meeting the definition of a discontinued operation contained in International Financial Reporting Standard 5 'Non-Current Assets Held for Sale and Discontinued Operations', to improve comparability of figures, the trading results of the businesses sold during 2007 have been excluded from the comparative results in the commentaries provided in this document. The impact of these businesses on the segmental analysis is set out below.

	Insurance and Investments £m	Wholesale and International Banking £m	Total £m
Half-year to 30 June 2007			
Net interest income	27	20	47
Other income	589	86	675
Total income	616	106	722
Insurance claims	(507)	-	(507)
Total income, net of insurance claims	109	106	215
Operating expenses	(22)	(84)	(106)
Profit before tax, excluding volatility	87	22	109
Volatility - insurance	32	-	32
- policyholder interests	5	-	5
Profit before tax	124	22	146
Half-year to 31 December 2007			
Net interest income	14	9	23
Other income	141	43	184
Total income	155	52	207
Insurance claims	(98)	-	(98)
Total income, net of insurance claims	57	52	109
Operating expenses	(9)	(46)	(55)
Profit before tax, excluding volatility	48	6	54
Volatility - insurance	(22)	-	(22)
- policyholder interests	(16)	-	(16)
Profit before tax	10	6	16

12. Other information

The financial information included in this news release does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2007 were delivered to the Registrar of Companies following publication on 29 March 2008. The auditors' report on these accounts was unqualified and did not include a statement under sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

CONTACTS

For further information please contact:

Michael Oliver
Director of Investor Relations
Lloyds TSB Group plc
020 7356 2167
Email: michael.oliver@ltsb-finance.co.uk

Douglas Radcliffe
Senior Manager, Investor Relations
Lloyds TSB Group plc
020 7356 1571
Email: douglas.radcliffe@ltsb-finance.co.uk

Copies of this news release may be obtained from Investor Relations, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN. The full news release can also be found on the Lloyds TSB Group's website – www.lloydstsb.com.

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