2007 COMPARED TO 2006

The impairment charge in the income statement was £241 million, or 15 per cent, higher at £1,796 million in 2007 compared to £1,555 million in 2006. This comprised a charge of £1,721 million, compared to a charge of £1,560 million in 2006, in respect of impairment losses on loans and advances, a charge of £70 million, compared to £nil in 2006, in respect of the impairment of available-for-sale financial assets and a charge of £5 million, compared to a credit of £5 million in 2006, in respect of other credit risk provisions.

The impairment charge in respect of loans and advances was £161 million, or 10 per cent, higher at £1,721 million compared to £1,560 million in 2006.

In UK Retail Banking the charge reduced by £14 million, or 1 per cent, to £1,224 million from £1,238 million in 2006, resulting in a charge as a percentage of average lending of 1.10 per cent compared to 1.18 per cent in 2006. For personal loans and overdrafts the charge reduced by £61 million, or 8 per cent, reflecting favourable collections experience and improved quality in new business. The charge for the credit card portfolio increased by £37 million, or 8 per cent, from £490 million in 2006 to £527 million in 2007 following a higher level of write-offs and lower recoveries. There was a charge of £18 million in the mortgage book, compared to £8 million in 2006, reflecting the impact of changes in house price indices and higher write-offs.

In Wholesale and International Banking the charge increased by £184 million, or 59 per cent, from £313 million in 2006 to £497 million in 2007 and the charge as a percentage of average lending was 0.57 per cent compared to 0.39 per cent in 2006. In Corporate Markets the charge was £179 million higher, at £165 million compared to a release of £14 million in 2006; 2006 saw a number of releases, whereas in 2007 there were significant new charges for certain Corporate customers as well as a charge of £28 million in the leasing business resulting from the change in the UK corporation tax rate from 30 per cent to 28 per cent. In Asset Finance the charge was £11 million lower, at £228 million, following a tightening of underwriting criteria. In Commercial Banking the charge was £5 million higher, at £99 million, and in International Banking and other businesses there was a charge of £5 million compared with a release of £6 million in 2006.

Overall, the Group’s charge in respect of impairment losses on loans and advances expressed as a percentage of average lending increased to 0.84 per cent compared to 0.83 per cent in 2006.

A charge of £70 million in 2007, compared to £nil in 2006, arose in respect of the impairment of certain asset-backed security collateralised debt obligations held as available-for-sale financial assets.

TAXATION

	2008 £m	2007 £m	2006 £m
UK corporation tax:			
– Current tax on profits for the year	**(667)**	(763)	(1,024)
– Adjustments in respect of prior years	**(19)**	30	137
	(686)	(733)	(887)
Double taxation relief	**91**	60	195
	(595)	(673)	(692)
Foreign tax:			
– Current tax on profits for the year	**(144)**	(98)	(83)
– Adjustments in respect of prior years	**4**	3	8
	(140)	(95)	(75)
Current tax charge	**(735)**	(768)	(767)
Deferred tax	**773**	89	(574)
Taxation credit (charge)	**38**	(679)	(1,341)

2008 COMPARED TO 2007

The rate of tax is influenced by the geographic and business mix of profits. The effective rate of tax in 2008 was a negative 4.7 per cent, as a tax credit arose on the profit for the year, compared to an effective rate of tax in 2007 of 17.0 per cent and corporation tax rates of 28.5 per cent in 2008 and 30 per cent in 2007. The effective tax rate is distorted by the requirement to include, within income tax in the income statement, the tax attributable to UK life insurance policyholder earnings and the Group’s interests in OEICs, being a tax credit of £471 million for 2008 compared to a tax credit of £243 million in 2007. The effective rate in 2007 was also particularly distorted by substantial profits on disposal of businesses, on which no tax charge arose, and the impact on the tax charge of the 2007 Finance Act reduction in the corporation tax rate from 30 per cent to 28 per cent (as a result of which the Group’s deferred tax liabilities were remeasured leading to a credit to the Group’s tax charge of £110 million). Excluding these items the effective tax rate in 2008 was 33.3 per cent compared to 28.3 per cent in 2007. Of this 5.0 per cent increase in the effective rate, 4.1 per cent is attributable to the impact of the Group’s £180 million provision in respect of certain historic US dollar payments, on which no tax relief is assumed; the remainder of the increase in the effective tax rate in 2008 on this adjusted basis reflects normal fluctuations in disallowed and non-taxable items. The Group does not expect the tax rate, excluding the impact of policyholders’ tax and OEICs, to vary significantly from the average UK corporation tax rate.

2007 COMPARED TO 2006

The effective rate of tax in 2007 was 17.0 per cent, compared to an effective rate of tax in 2006 of 31.6 per cent and corporation tax rates of 30 per cent in both 2007 and 2006. Excluding the tax attributable to UK life insurance policyholder earnings and the Group’s interests in OEICs, profits on disposal of businesses and the impact on the tax charge of the 2007 Finance Act reduction in the corporation tax rate, the effective tax rate in 2007 was 28.3 per cent compared to 28.0 per cent in 2006. The increased effective tax rate in 2007 on this adjusted basis reflected normal fluctuations in disallowed and non-taxable items.

ECONOMIC PROFIT

In pursuit of the Group's aim to maximise shareholder value over time, management has for a number of years used a system of value based management as a framework to identify and measure value creation. Management uses economic profit, a non-GAAP measure, as a measure of performance, and believes that it provides important information for investors, because it captures both growth in investment and return; profit before tax is the comparable GAAP measure used by management. The Group defines economic profit as the earnings on the equity invested in the business less a notional charge for the cost of the equity invested in that business.

The Group's cost of equity is determined as:

risk-free interest rate + (equity risk premium x Lloyds Banking Group plc's beta)

The principal limitations of economic profit as a financial measure are that:

(i) it is reliant on an estimate of the Group's cost of equity, which is itself dependent upon assumptions made for the risk-free interest rate, the equity risk premium and the beta of Lloyds Banking Group plc. The beta is a quantitative measure of the volatility of Lloyds Banking Group plc shares relative to the overall market – a beta above 1 indicates that the stock is more volatile than the overall market, whilst a stock with a beta below 1 is less volatile than the overall market; and

(ii) it uses average shareholders' equity calculated on an accounting basis as opposed to an economic equity amount, which takes into account the level of risk inherent in the business; the Group is currently developing an economic equity model to address this limitation.

The Group does not attempt to estimate the assumptions on a prospective basis; the assumptions used are:

(a) the yield on the 10 year index for UK government stock as an approximation of the risk-free rate;

(b) an equity risk premium of 3 per cent; and

(c) the beta of Lloyds Banking Group plc's shares based on experience over the last five years.

Lloyds Banking Group recognises that a wide range of approaches for economic profit can be justified and, therefore, believes that its usefulness as a financial measure relies upon a consistent approach, so as not to unnecessarily distort its trend.

Management compensates for both of the above limitations by using a consistent basis of calculation, reviewing the results of the calculation regularly and, to ensure consistency of reporting, only adjusting the cost of capital if it changes significantly. As noted above, the Group is also currently developing its economic equity capabilities, which will address the current limitations. As noted, the principal factor in estimating the cost of equity is the risk-free interest rate. If this rate increases, management will consider raising its estimate of the cost of equity; if the rate falls, management will consider reducing its estimate of the cost of equity. The principal other external market factors considered are equity risk premia and Lloyds Banking Group plc's share price volatility relative to the UK stock market as a whole. Any change to the estimated cost of equity will be disclosed. For the last three years, management has used a cost of equity of 9 per cent to reflect the shareholders' minimum required rate of return on equity invested.

Lloyds Banking Group believes that economic profit instils financial discipline in determining investment decisions throughout the Group and that it enables the Group to evaluate alternative strategies objectively, with a clear understanding of the value created by each strategy, and then to select the strategy which creates the greatest value. Awards to senior executives under the Group's annual bonus arrangements are partly determined by the achievement of economic profit targets.

The table below summarises the Group's calculation of economic profit for the years indicated.

	2008 £m	2007 £m	2006 £m
Average shareholders' equity	**11,016**	11,681	10,531
Profit before tax	**807**	4,000	4,248
Taxation credit (charge)	**38**	(679)	(1,341)
Profit attributable to minority interests	**(26)**	(32)	(104)
Profit attributable to equity shareholders	**819**	3,289	2,803
Less: notional charge for the cost of equity	**(991)**	(1,051)	(948)
Economic profit	**(172)**	2,238	1,855

The notional charge for the cost of equity has been calculated by multiplying average shareholders' equity by the cost of equity. The Group's average equity is determined using month-end retained profit and other equity balances.

2008 COMPARED TO 2007

Economic profit decreased to a loss of £172 million in 2008 compared to a profit of £2,238 million in 2007. Profit attributable to equity shareholders decreased by £2,470 million, or 75 per cent, to £819 million; the notional charge on average equity was £60 million lower, as a result of a 6 per cent decrease in average equity to £11,016 million compared to £11,681 million in 2007. The reduction in average equity primarily resulted from profit retentions and increases in share capital being more than offset by dividends paid and temporary mark-to-market adjustments taken to reserves in respect of available-for-sale financial assets.

2007 COMPARED TO 2006

Economic profit increased to £2,238 million in 2007 compared to £1,855 million in 2006. Profit attributable to equity shareholders increased by £486 million, or 17 per cent, to £3,289 million; the notional charge on average equity was £103 million higher, as a result of an 11 per cent increase in average equity to £11,681 million compared to £10,531 million in 2006. The increase in average equity primarily reflected profit retentions, after dividends, over 2006 and 2007.

LINE OF BUSINESS INFORMATION

SUMMARY

As part of the 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 the other divisions. To enable meaningful year-on-year comparisons, the segmental analyses for 2007 and 2006 have been restated to reflect these changes.

The impact of IFRS, and in particular the increased use of fair values, has resulted in greater earnings volatility. Profit before tax is analysed below on both a statutory basis and, in order to provide a more comparable representation of business performance, a basis which separately discloses this volatility, which arises solely within the Insurance and Investments business. See page 38 for a description of volatility and its most significant limitations. The results of the businesses are set out below:

	Profit before tax (statutory)			Profit before tax (excluding volatility)		
	2008 **£m**	2007# £m	2006# £m	**2008** **£m**	2007# £m	2006# £m
UK Retail Banking	**1,674**	1,644	1,529	**1,674**	1,644	1,529
Insurance and Investments	**(309)**	655	1,194	**908**	1,155	784
Wholesale and International Banking	**(6)**	1,713	1,612	**(6)**	1,713	1,612
Central group items	**(552)**	(12)	(87)	**(552)**	(12)	(87)
Profit before tax, excluding volatility				**2,024**	4,500	3,838
Volatility				**(1,217)**	(500)	410
Profit before tax	**807**	4,000	4,248	**807**	4,000	4,248

UK RETAIL BANKING

	2008 **£m**	2007# £m	2006# £m
Net interest income	**4,110**	3,695	3,622
Other income	**1,766**	1,797	1,621
Total income	**5,876**	5,492	5,243
Operating expenses	**(2,730)**	(2,624)	(2,476)
Trading surplus	**3,146**	2,868	2,767
Impairment	**(1,472)**	(1,224)	(1,238)
Profit before tax†	**1,674**	1,644	1,529
Cost:income ratio	**46.5%**	47.8%	47.2%
Total assets (year end)	**£127,502m**	£115,012m	£108,381m

† No volatility arises within UK Retail Banking and so these results are both statutory and excluding volatility.

restated, see above.

2008 COMPARED TO 2007

Profit before tax from UK Retail Banking increased by £30 million, or 2 per cent, to £1,674 million in 2008 compared to £1,644 million in 2007.

Net interest income was £415 million, or 11 per cent, higher at £4,110 million in 2008 compared with £3,695 million in 2007, reflecting both an increase in average interest-earning assets and an improvement in the net interest margin. Average interest-earning assets were £9,234 million, or 8 per cent, higher at £120,128 million in 2008 compared to £110,894 million in 2007 as a result of lending growth, particularly within the mortgage business. Average mortgage balances were £8,652 million higher in 2008. Gross new mortgage lending for the Group totalled £27,767 million, compared to £29,431 million in 2007; net new lending totalled £10,914 million, compared to £6,647 million in 2007, resulting in a market share of net new mortgage lending of 27.5 per cent, compared to 6.2 per cent in 2007. Average balances in respect of other personal lending were £20,138 million compared with £19,426 million in 2007. Average credit card balances in 2008 were 2 per cent lower at £6,477 million compared to £6,619 million in 2007, whilst balances on personal loans and overdrafts were 7 per cent higher at £13,661 million in 2008. Overall margins in UK Retail Banking improved by 9 basis points as a result of wider margins within the unsecured personal lending business and on new mortgages.

Other income was £31 million, or 2 per cent, lower at £1,766 million compared to £1,797 million in 2007. Higher fees and commissions receivable as a result of growth in added-value current accounts and card services were more than 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 other income.

Operating expenses were £106 million higher at £2,730 million in 2008 compared with £2,624 million in 2007; in 2008 a provision of £119 million, compared to £nil in 2007, was made in respect of the Financial Services Compensation Scheme levy whilst in 2007 operating expenses included £76 million for the settlement of overdraft claims. Excluding these items, operating expenses were £63 million, or 2 per cent, higher at £2,611 million. The Group has continued to benefit from the recent investment in reducing the levels of administration and processing work carried out in branches. This has enabled the Group to increase its focus on meeting the needs of its customers and has supported further improved productivity in the branch network sales effort. These initiatives have supported a further improvement in the retail banking cost:income ratio to 46.5 per cent from 47.8 per cent in 2007.

The impairment charge on loans and advances of £1,472 million in 2008 was £248 million, or 20 per cent, higher than the £1,224 million impairment charge in 2007. The charge in respect of personal loans and overdrafts was £100 million, or 15 per cent, higher at £779 million compared to £679 million in 2007 and represented 5.73 per cent of average lending, compared to 5.32 per cent in 2007; and the charge in respect of card balances was £1 million lower at £526 million compared with £527 million in 2007. The impairment charge in Mortgages was £167 million, compared to £18 million in 2007, or 17 basis points of average mortgage lending. The most significant factors in the increase in the mortgage impairment charge during 2008 were the fall in the house price index and the deterioration in economic conditions in the UK.

2007 COMPARED TO 2006

Profit before tax from UK Retail Banking increased by £115 million, or 8 per cent, to £1,644 million in 2007 compared to £1,529 million in 2006. Profit before tax included the cost of the settlement of overdraft claims of £76 million in 2007, compared to £nil in 2006; excluding this item, profit before tax in 2007 of £1,720 million was £191 million, or 12 per cent, higher than £1,529 million in 2006.

Net interest income was £73 million, or 2 per cent, higher at £3,695 million in 2007 compared with £3,622 million in 2006. Average interest-earning assets were £5,959 million, or 6 per cent, higher at £110,894 million in 2007 compared to £104,935 million in 2006. Average mortgage balances were £6,462 million higher in 2007. Gross new mortgage lending for the Group totalled £29,431 million, compared to £27,599 million in 2006; net new lending totalled £6,647 million, compared to £6,957 million in 2006, resulting in a market share of net new mortgage lending of 6.2 per cent, compared to 6.3 per cent in 2006. Average balances in respect of other personal lending were £266 million lower reflecting a slow down in consumer demand, particularly with regard to credit cards. Credit card balances at 31 December 2007 were 4 per cent lower at £6,584 million compared to £6,877 million at 31 December 2006, whilst period end balances on personal loans were 1 per cent higher at £11,238 million at the end of 2007. Credit balances on savings and investment accounts at 31 December 2007 were 8 per cent higher at £82,081 million compared to £75,661 million at 31 December 2006. The effect of volume growth was, however, partly offset by a 12 basis point decrease in the net interest margin as a result of competitive pressures and an adverse mix effect, as most of the asset growth has been in the relatively lower margin mortgage sector.

Other income was £176 million, or 11 per cent, higher at £1,797 million compared to £1,621 million in 2006. The increase arose from growth in fee-earning added-value current accounts and income from debit cards as well as higher insurance commissions, partially offset by lower income from mortgages following changes in the structure of fees charged on closing a mortgage account and lower late payment charges on credit cards. There has also been an increase in wealth management fee income.

Operating expenses were £148 million higher at £2,624 million in 2007 compared with £2,476 million in 2006; this comparison includes the cost of the settlement of overdraft claims of £76 million which was recorded in 2007. Excluding this item, operating expenses were £72 million, or 3 per cent, higher at £2,548 million. Improvements had been made in the rationalisation of back office operations to improve efficiency and the Group continued to increase the proportion of front office to back office staff in the branch network. The cost:income ratio was 47.8 per cent, compared to 47.2 per cent in 2006, or 46.4 per cent excluding the cost of the settlement of overdraft claims.

The impairment charge on loans and advances of £1,224 million was £14 million, or 1 per cent, lower than the £1,238 million in 2006. The charge in respect of personal loans and overdrafts was £61 million, or 8 per cent, lower at £679 million compared to £740 million in 2006 and represented 5.32 per cent of average lending, compared to 5.85 per cent in 2006; and the charge in respect of card balances was £37 million, or 8 per cent, higher at £527 million compared with £490 million in 2006. The impairment charge in Mortgages was £18 million, compared to £8 million in 2006, or 2 basis points of average mortgage lending.

INSURANCE AND INVESTMENTS

The Group's Insurance and Investments activities comprise the life, pensions and OEICs businesses of Scottish Widows, general insurance underwriting and broking, Scottish Widows Bank and Scottish Widows Investment Partnership. The Group sold Abbey Life in the second half of 2007.

In addition to presenting Insurance and Investments results prepared in accordance with IFRS, all monthly financial reporting to the group executive committee and board presents separately the results of these businesses before volatility. The information set out below, therefore, presents the information both in accordance with applicable accounting standards ('statutory') and on a basis which excludes volatility ('excluding volatility'). Further discussion on the Group's use of volatility is provided in 'Operating and financial review and prospects – Line of business information – Volatility'.

	Statutory			Excluding volatility		
	2008 £m	2007# £m	2006# £m	**2008 £m**	2007# £m	2006# £m
Net interest income	**598**	363	(86)	**589**	356	(55)
Other income	**(3,101)**	8,197	10,487	**(1,875)**	8,704	10,046
Total income	**(2,503)**	8,560	10,401	**(1,286)**	9,060	9,991
Insurance claims	**2,859**	(7,522)	(8,569)	**2,859**	(7,522)	(8,569)
Total income, net of insurance claims	**356**	1,038	1,832	**1,573**	1,538	1,422
Operating expenses	**(663)**	(655)	(638)	**(663)**	(655)	(638)
Trading surplus	**(307)**	383	1,194	**910**	883	784
Impairment	**(2)**	—	—	**(2)**	—	—
Profit on sale of businesses	**—**	272	—	**—**	272	—
Profit before tax, excluding volatility				**908**	1,155	784
Volatility				**(1,217)**	(500)	410
(Loss) profit before tax	**(309)**	655	1,194	**(309)**	655	1,194
Further analysis of other income:						
Net fee and commission expense	**(124)**	(94)	(125)	**(124)**	(94)	(125)
Net trading income	**(8,314)**	2,603	5,668	**(7,667)**	3,050	5,308
Insurance premium income	**5,412**	5,430	4,719	**5,412**	5,430	4,719
Other operating income	**(75)**	258	225	**504**	318	144
Other income, excluding volatility				**(1,875)**	8,704	10,046
Volatility				**(1,226)**	(507)	441
Other income	**(3,101)**	8,197	10,487	**(3,101)**	8,197	10,487
Analysis by area of business of profit before tax						
Life, pensions and OEICs	**(582)**	511	897	**632**	1,004	505
General insurance	**231**	103	267	**234**	110	249
Scottish Widows Investment Partnership	**42**	41	30	**42**	41	30
Profit before tax, excluding volatility				**908**	1,155	784
Volatility				**(1,217)**	(500)	410
(Loss) profit before tax	**(309)**	655	1,194	**(309)**	655	1,194

restated, see page 28.

2008 COMPARED TO 2007

Profit before tax from the Group’s Insurance and Investments business was £964 million lower at a loss of £309 million compared to a profit of £655 million in 2007. The Group believes that the Insurance and Investments business is affected by volatility arising from market movements (see ‘Operating and financial review and prospects – Line of business information – Volatility’). Profit before tax excluding volatility was £247 million, or 21 per cent, lower at £908 million in 2008 compared to £1,155 million in 2007; profit before tax in 2007 also included £272 million profit on the disposal of Abbey Life at the end of September 2007.

Net interest income was £235 million higher at £598 million in 2008 compared to £363 million in 2007. This increase is primarily as a result of a further decrease of £229 million in the amounts payable to unitholders in those OEICs included in the consolidated results of the Group.

Other income was £11,298 million lower at a deficit of £3,101 million in 2008 compared to income of £8,197 million in 2007. Net fee and commission expense was £30 million, or 32 per cent, higher at £124 million in 2008 compared to £94 million in 2007; a decrease in fees receivable following the disposal of Abbey Life and a decrease in insurance broking fee income were only partly offset by increased unit trust management fee income and a reduction in asset management fees payable. Net trading income was £10,917 million lower at a loss of £8,314 million in 2008 compared to gains of £2,603 million in 2007, reflecting substantial losses on policyholder investments as a result of the poor market performance; this period-on-period decrease is largely matched by a compensating movement within the insurance claims figure. Insurance premium income was £18 million lower at £5,412 million in 2008 compared to £5,430 million in 2007, with life and pensions premiums being £39 million lower as a reduction of £232 million following the sale of Abbey Life has been offset by growth in Scottish Widows as a result of the increased level of business written under contracts categorised as insurance. Other operating income was £333 million lower at a deficit of £75 million in 2008, compared to income of £258 million in 2007, as a result of adverse movements in the value of in-force business.

Operating expenses were £8 million, or 1 per cent, higher at £663 million in 2008 compared to £655 million in 2007. A reduction of £31 million as a result of the disposal of Abbey Life in 2007 and a decrease in professional and other fees related to project work were more than offset by increased staff costs and a higher net charge in respect of deferred acquisition costs as a result of an increasing proportion of new business being accounted for as insurance contracts.

The performances of the life, pensions and OEICs business and the general insurance business are discussed separately below, on pages 32 to 34.

2007 COMPARED TO 2006

Profit before tax from the Group’s Insurance and Investments business was £539 million, or 45 per cent, lower at £655 million compared to £1,194 million in 2006. Profit before tax excluding volatility was £371 million, or 47 per cent, higher at £1,155 million in 2007 compared to £784 million in 2006. Profit before tax in 2007 also included £272 million profit on the disposal of Abbey Life at the end of September 2007.

Net interest income was £411 million higher at £356 million in 2007 compared to a net expense of £55 million in 2006. This increase was primarily as a result of a decrease in the amounts payable to unitholders in those OEICs included in the consolidated results of the Group together with an increase in the level of interest income on cash deposit investments held in the long-term business and policyholder funds.

Other income was £2,290 million, or 22 per cent, lower at £8,197 million in 2007 compared to £10,487 million in 2006; excluding volatility, other income was £1,342 million, or 13 per cent, lower at £8,704 million in 2007 compared to £10,046 million in 2006. Net fee and commission expense was £31 million, or 25 per cent, lower at £94 million in 2007 compared to £125 million in 2006 partly reflecting an increase in general insurance broking income. Net trading income was £3,065 million, or 54 per cent, lower at £2,603 million in 2007 compared to £5,668 million in 2006, reflecting fluctuations in the level of investment returns within the long-term business funds. Insurance premium income was £711 million, or 15 per cent, higher at £5,430 million in 2007 compared to £4,719 million in 2006, of which life and pensions premiums were £720 million higher as a result of the increased level of business written under contracts categorised as insurance. Other operating income was £33 million, or 15 per cent, higher at £258 million in 2007 compared to £225 million in 2006.

Operating expenses were £17 million, or 3 per cent, higher at £655 million in 2007 compared to £638 million in 2006. The reduction in staff costs resulting from a year-on-year reduction in staff numbers has been offset by the impact of annual salary increases, a higher net charge in respect of amortisation of deferred acquisition costs and an increased charge for depreciation and amortisation.

LIFE, PENSIONS AND OEICS

The table below shows the Present Value of New Business Premiums (‘PVNBP’) which is the measure of new business premiums for the life and pensions business and OEIC sales that management monitors because it provides an indication of both the performance and the profitability of the business – this is calculated as the value of single premiums plus the discounted present value of future expected regular premiums. There are three main distribution channels for the sale of the Group’s life, pension and OEIC products and the tables below show the relative importance of each.

Present value of new business premiums (PVNBP)	**2008 £m**	2007 £m	2006 £m
Life and pensions:			
Protection	**997**	960	232
Savings and investments	**437**	913	1,300
Individual pensions	**2,125**	2,073	2,219
Corporate and other pensions	**2,482**	2,141	1,961
Retirement income	**939**	1,044	960
Managed fund business	**217**	486	348
Life and pensions	**7,197**	7,617	7,020
OEICs	**2,897**	2,807	2,720
Life, pensions and OEICs	**10,094**	10,424	9,740
Single premium business	**7,346**	8,375	7,321
Regular premium business	**2,748**	2,049	2,419
Life, pensions and OEICs	**10,094**	10,424	9,740
Bancassurance	**4,247**	4,096	3,421
Independent financial advisers	**5,367**	5,817	5,706
Direct	**480**	511	613
Life, pensions and OEICs	**10,094**	10,424	9,740

2008 COMPARED TO 2007

Overall life, pensions and OEICs sales were £330 million, or 3 per cent, lower at £10,094 million in 2008 compared to £10,424 million in 2007, for the following reasons.

Life and pension sales (including Managed fund business) were £420 million, or 6 per cent, lower at £7,197 million in 2008 compared with £7,617 million in 2007. Protection sales were £37 million, or 4 per cent, higher at £997 million compared to £960 million in 2007, but Savings and investment sales were £476 million lower at £437 million compared to £913 million in 2007, partly due to decreased Flexible Option Bond sales following changes in tax legislation which made such bonds less attractive to investors. Individual pension sales were £52 million higher at £2,125 million in 2008 compared to £2,073 million in 2007 as the negative impact of difficult market conditions were more than offset by the sales of the Retirement Account product. Corporate and other pension sales were £341 million higher at £2,482 million compared to £2,141 million in 2007 as continued product development has helped Scottish Widows to attract a number of large corporate pension schemes. Retirement income sales are £105 million lower at £939 million in 2008 compared to £1,044 million in 2007, as current market conditions have made annuity products unattractive; and Managed fund business sales were £269 million lower at £217 million compared to £486 million in 2008, again as a result of adverse market conditions.

OEICs sales increased by £90 million, or 3 per cent, to £2,897 million in 2008 compared to £2,807 million in 2007 as sales growth through the Wealth Management business has more than offset a decrease in sales elsewhere within the Bancassurance channel, as a result of a fall in consumer confidence in the investment market.

By distribution channel, Bancassurance sales were £151 million, or 4 per cent, higher at £4,247 million in 2008 compared to £4,096 million in 2007 whereas sales via independent financial advisers were £450 million, or 8 per cent, lower at £5,367 million in 2008 compared to £5,817 million in 2007.

Loss before tax, on a statutory basis, from life, pensions and OEICs was £582 million in 2008 compared to a profit of £511 million in 2007. Excluding volatility, profit before tax was £372 million, or 37 per cent, lower at £632 million in 2008 compared to £1,004 million in 2007. Profit before tax in 2007 also included the £272 million profit on disposal of Abbey Life and £135 million of profits, excluding volatility, of Abbey Life up to the date of sale; adjusting for these items profit before tax, excluding volatility, of £632 million in 2008 was £35 million, or 6 per cent, higher than £597 million in 2007 as growth in new business profit, reflecting sales growth in insurance-accounted products, has been partly offset by reduced existing business profits principally reflecting the adverse effect of changes made to the economic assumptions used to calculate the value of in-force business included in the balance sheet and the impact of weaker investment markets.

2007 COMPARED TO 2006

Overall life, pensions and OEICs sales were £684 million, or 7 per cent, higher at £10,424 million in 2007 compared to £9,740 million in 2006.

The majority of the growth was in life and pension sales (including Managed fund business) which were £597 million, or 9 per cent, higher at £7,617 million in 2007 compared with £7,020 million in 2006. Key growth areas in 2007 were within Bancassurance sales, driven by the introduction of underwriting the life element of the creditor and insurance protection products and the launch of the Protection for Life proposition. Additionally, corporate pension sales were £180 million, or 9 per cent, higher reflecting increased incremental premiums in 2007. These increases were, however, in part offset by a decrease of £387 million in Savings and investments sales largely due to a sharp decline in IFA Flexible Option Bond sales following property fund restrictions and increasing competition in the marketplace.

OEICs sales increased £87 million, or 3 per cent, in 2007 to £2,807 million compared to £2,720 million in 2006. The growth in OEICs sales reflects increased sales capabilities within the Bancassurance channel and, in particular, continued development of the relationships with the Community Banking and Wealth Management businesses within UK Retail Banking.

By distribution channel, Bancassurance sales were £675 million, or 20 per cent, higher at £4,096 million in 2007 compared to £3,421 million in 2006, as a result of continuing development of the relationships with the Community Banking and Wealth Management businesses. Sales via independent financial advisers were £111 million, or 2 per cent, higher at £5,817 million in 2007 compared to £5,706 million in 2006.

Profit before tax, on a statutory basis, from life, pensions and OEICs was £386 million, or 43 per cent, lower at £511 million in 2007 compared to £897 million in 2006. Excluding volatility, profit before tax was £499 million, or 99 per cent, higher at £1,004 million in 2007 compared to £505 million in 2006. Profit before tax in 2007 included £272 million profit on disposal of Abbey Life. A slight reduction in new business profit resulted from a change in the mix of investment products sold through Bancassurance towards non-embedded value accounted products; however this was offset by increased existing business profit, partly reflecting a reduction in adverse assumption changes compared to 2006, and an improved expected return on shareholders' net assets.

GENERAL INSURANCE

The results of the general insurance business are set out below.

	Statutory			Excluding volatility		
	2008 £m	2007# £m	2006# £m	**2008 £m**	2007# £m	2006# £m
Net interest income	**6**	5	30	**6**	5	30
Other income	**579**	554	594	**582**	561	576
Total income	**585**	559	624	**588**	566	606
Insurance claims	**(193)**	(302)	(200)	**(193)**	(302)	(200)
Total income, net of insurance claims	**392**	257	424	**395**	264	406
Operating expenses	**(161)**	(154)	(157)	**(161)**	(154)	(157)
Profit before tax, excluding volatility				**234**	110	249
Volatility				**(3)**	(7)	18
Profit before tax	**231**	103	267	**231**	103	267

	2008 £m	2007 £m	2006 £m
Premium income from underwriting (net of reinsurance):			
Home	**441**	418	407
Creditor	**163**	164	180
Other	**8**	9	13
	612	591	600
Commissions from insurance broking†:			
Creditor	**428**	510	468
Home	**50**	50	59
Other	**71**	88	102
	549	648	629

restated, see page 28.

† within the analysis of commissions from insurance broking, profit share receivable has been allocated across product groups, whereas it was previously allocated to other. Comparative figures have been restated accordingly.

2008 COMPARED TO 2007

Profit before tax, on a statutory basis, from the Group's general insurance operations was £128 million, or 124 per cent, higher at £231 million in 2008 compared to £103 million in 2007. Excluding volatility, profit before tax was £124 million, or 113 per cent, higher at £234 million in 2008 compared to £110 million in 2007.

Net interest income was £1 million, or 20 per cent, higher at £6 million in 2008 compared to £5 million in 2007.

Other income, on a statutory basis, was £25 million, or 5 per cent, higher at £579 million in 2008 compared to £554 million in 2007. Insurance broking commissions receivable were £99 million, or 15 per cent, lower at £549 million in 2008 compared to £648 million in 2007; home insurance commissions were flat but creditor commissions fell in line with reduced new loan volumes. Underwriting income, net of reinsurance, was £21 million, or 4 per cent, higher at £612 million in 2008 compared to £591 million in 2007; home insurance premiums were 6 per cent higher reflecting the success of the Home Solutions product. Fees and commissions payable were £87 million, or 13 per cent, lower at £605 million in 2008 compared to £692 million in 2007; this largely reflects reduced creditor insurance sales volumes.

Insurance claims expense was £109 million, or 36 per cent, lower at £193 million in 2008 compared to £302 million in 2007 largely as a result of the non-repetition of the £113 million increase in weather related claims in 2007, resulting from storms in January 2007 and severe flooding in June and July 2007 in the UK.

Operating expenses were £7 million, or 5 per cent, higher at £161 million in 2008 compared to £154 million in 2007 reflecting increases in staff costs and other administration charges.

2007 COMPARED TO 2006

Profit before tax, on a statutory basis, from the Group's general insurance operations was £164 million, or 61 per cent, lower at £103 million in 2007 compared to £267 million in 2006. Excluding volatility, profit before tax was £139 million, or 56 per cent, lower at £110 million in 2007 compared to £249 million in 2006.

Net interest income was £25 million lower at £5 million in 2007 compared to £30 million in 2006.

Other income, on a statutory basis, was £40 million, or 7 per cent, lower at £554 million in 2007 compared to £594 million in 2006. Insurance broking commissions receivable were £19 million, or 3 per cent, higher at £648 million in 2007 compared to £629 million in 2006; this was driven primarily by improved Creditor performance (up £42 million in 2007) and reflected higher loan protection sales volumes across the UK Retail Banking branch network. Underwriting income, net of reinsurance, was £9 million, or 2 per cent, lower at £591 million in 2007 compared to £600 million in 2006; increased income in respect of home insurance policies was more than offset by reductions in respect of creditor protection products, partly due to lower average card balances. Fees and commissions payable were £28 million, or 4 per cent, higher at £692 million in 2007 compared to £664 million in 2006; this largely reflected fluctuations in branch network sales volumes.

Insurance claims expense was £102 million, or 51 per cent, higher at £302 million in 2007 compared to £200 million in 2006 largely as a result of a £113 million increase in weather related claims, resulting from storms in January 2007 and severe flooding in June and July 2007 in the UK.

Operating expenses were £3 million, or 2 per cent, lower at £154 million in 2007 compared to £157 million in 2006 reflecting continued focus on improving operational costs and processing efficiency.

WHOLESALE AND INTERNATIONAL BANKING

	2008 £m	2007# £m	2006# £m
Net interest income	**3,303**	2,409	2,149
Other income	**829**	1,773	2,035
Total income	**4,132**	4,182	4,184
Operating expenses	**(2,630)**	(2,282)	(2,264)
Trading surplus	**1,502**	1,900	1,920
Impairment	**(1,508)**	(572)	(308)
Profit on sale of businesses	**—**	385	—
(Loss) profit before tax†	**(6)**	1,713	1,612
Cost:income ratio	**63.6%**	54.6%	54.1%
Total assets (year end)	**£238,832m**	£163,294m	£147,836m

† No volatility arises within Wholesale and International Banking and so these results are both statutory and excluding volatility.

restated, see page 28.

2008 COMPARED TO 2007

In 2008 Wholesale and International Banking recorded a loss before tax of £6 million compared with a profit before tax of £1,713 million in 2007. Included within the loss before tax in 2008 was a provision of £180 million in respect of certain historic US dollar payments and goodwill impairment of £100 million. The profit before tax in 2007 was positively impacted by the profit on sale of businesses of £385 million (principally relating to Lloyds TSB Registrars) and included profit before tax of £28 million in respect of those businesses. Excluding these items, profit before tax in 2008 was £274 million which was £1,026 million, or 79 per cent, lower than £1,300 million in 2007, for the following reasons.

Net interest income was £894 million, or 37 per cent, higher at £3,303 million compared to £2,409 million in 2007. This increase reflected growth in interest-earning assets in Corporate Markets, Commercial Banking and International Banking. Average interest-earning assets were £22,547 million, or 17 per cent, higher at £158,254 million. Excluding the fine margin reverse repurchase agreement balances from both years, the increase was £24,891 million. The net interest margin, again excluding the fine margin reverse repurchase agreement balances, increased by 27 basis points, as a widening of margins within Corporate Markets, in part as a result of changes in funding arrangements, and Asset Finance was partly offset by decreased margins in Commercial Banking, where growth has been in lower margin secured products.

Other income was £944 million, or 53 per cent, lower at £829 million compared to £1,773 million in 2007. Other income in 2007 included £129 million arising from businesses sold during that year. Excluding this amount, other income was £815 million lower than in 2007; the significant reduction in Corporate Market’s other income (£936 million lower), primarily as a result of the recent market turmoil, was partially offset by increases in Commercial Banking (£34 million, or 8 per cent, higher), Asset Finance (£40 million, or 9 per cent, higher) and International Banking (£22 million, or 12 per cent, higher).

Operating expenses were £348 million, or 15 per cent, higher at £2,630 million in 2008 compared to £2,282 million in 2007. In 2007, operating expenses included £130 million arising within businesses sold during that year, and in 2008, operating expenses included £100 million of goodwill impairment in respect of the Group’s asset finance business and a provision of £180 million in respect of certain historic US dollar payments. Excluding these amounts, operating expenses increased £198 million, or 9 per cent. This increase reflects the continued investment in the Group’s people and infrastructure, particularly within Corporate Markets.

The impairment charge in 2008 totalled £1,508 million, compared to £572 million in 2007, an increase of £936 million. The charge in respect of loans and advances increased by £905 million, from £497 million in 2007 to £1,402 million in 2008 and the charge as a percentage of average lending was 1.33 per cent compared to 0.57 per cent in 2007. In Corporate Markets the charge was £774 million higher, at £939 million compared to £165 million in 2007; the significant increase reflects the economic slowdown in the UK and the impact of a number of high profile financial services company collapses. In Commercial Banking the charge was £89 million, or 90 per cent, higher, at £188 million; in Asset Finance the charge was £42 million, or 18 per cent, higher, at £270 million; and in International Banking there was a charge of £6 million compared with a release of £2 million in 2007. In addition, a charge of £100 million in 2008 (2007: £70 million) arose in respect of the impairment of available-for-sale financial assets.

At 31 December 2008, Lloyds Banking Group’s Corporate Markets’ exposure to certain categories of assets the values of which have been affected by the ongoing capital markets uncertainties was as described below:

- Asset Backed Security CDOs (‘ABS CDOs’) and monoline Credit Default Swap (‘CDS’) exposure: Corporate Markets had no direct exposure to US sub-prime ABS and limited indirect exposure through ABS CDOs. During 2008, the market value of the Group’s holdings in ABS CDOs reduced and, as a result, Corporate Markets took an income statement charge of £92 million. Corporate Markets had no exposure to mezzanine ABS CDOs. In addition, Corporate Markets had £1,867 million, compared to £1,861 million at 31 December 2007, of ABS CDOs which remain fully cash collateralised by major global financial institutions.

- At 31 December 2008, Corporate Markets had fair value exposure to one monoline financial guarantor in the form of CDS protection bought against a £256 million collateralised loans obligation. The exposure on this CDS was £10 million, following a £28 million adverse credit valuation adjustment. A restructuring of the Group’s other monoline hedged ABS CDO has eliminated any reliance on the financial guarantor and has resulted in a much improved risk profile on a reduced holding of £128 million included in loans and advances. Credit valuation adjustments and restructuring costs related to the cancelled CDS in the amount of £275 million were recognised in the income statement.

- Structured Investment Vehicles (‘SIV’): During 2008 Corporate Markets wrote down the value of its SIV exposures by £95 million. Corporate Markets has no residual exposure to SIV Capital Notes. Additionally, at 31 December 2008 Corporate Markets had a commercial paper back up liquidity facility totalling £22 million, compared to £370 million at 31 December 2007.

- Financial instruments held at fair value through profit or loss: During 2008, Corporate Markets also saw a reduction in profit before tax of £653 million (excluding the £303 million described above due to valuation and restructuring costs relating to CDS) as a result of the impact of mark-to-market adjustments in certain legacy trading portfolios, reflecting the marketwide repricing of liquidity and credit.

- At 31 December 2008 the trading portfolio contained £33 million of indirect exposure to US sub-prime mortgages and ABS CDOs. This super senior exposure remains protected by note subordination.

- Available-for-sale financial assets: At 31 December 2008, the Group’s portfolio of available-for-sale financial assets totalled £55,707 million, compared to £20,196 million at 31 December 2007, of which £55,364 million, compared to £19,662 million at 31 December 2007, were held in Corporate Markets. This increase largely reflects the Group’s decision to substantially increase, for liquidity purposes, its holdings of treasury and Government guaranteed securities over the HBOS acquisition period. The available-for-sale financial assets comprise £6,273 million ABS in Cancara, the Group’s hybrid Asset Backed Commercial Paper conduit, £2,917 million Student Loan ABS, predominantly guaranteed by the US Government, £11,747 million Government bonds and short-dated bank commercial paper, £29,142 million treasury bills and other eligible bills and £5,285 million major bank senior paper and high quality ABS. Temporary mark-to-market adjustments are required to be taken through reserves. During 2008, a net £2,023 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 financial assets.

- Impairment of available-for-sale financial assets: Gross impairment losses in respect of available-for-sale financial assets transferred from reserves to the income statement during 2008 totalled £130 million, compared to £70 million during 2007, of which £100 million relate to Corporate Markets, compared to £70 million during 2007.

- Cancara: Total exposures in Cancara were £12,615 million at 31 December 2008, comprising £6,273 million ABS in available-for-sale financial assets and £6,342 million in loans and advances to customers. Cancara is fully consolidated in the Group’s accounts. At 31 December 2008, the ABS in Cancara were 91.8 per cent and 94.2 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. All non AAA rated ABS have been funded by the Group. At 31 December 2008 loans and advances to customers included no US sub-prime mortgage exposure.

- Leveraged finance – underwriting commitments: At 31 December 2008, Corporate Markets’ not yet syndicated leveraged loan underwriting commitments amounted to £931 million, compared to £756 million at 31 December 2007, of which £438 million were originated before the current market uncertainties. All of the underlying assets are performing satisfactorily.

The Group’s exposures to categories of assets, the value of which has been affected by the ongoing capital markets uncertainties, have increased significantly following the acquisition of HBOS.

2007 COMPARED TO 2006

Profit before tax from Wholesale and International Banking was £101 million, or 6 per cent, higher at £1,713 million in 2007 compared to £1,612 million in 2006. However, in 2007 profit before tax was particularly impacted by the profit on sale of businesses of £385 million (principally relating to Lloyds TSB Registrars) and by turbulence in global financial markets which reduced profit before tax by £280 million. Excluding both of these items, profit before tax in 2007 was £1,608 million which was £4 million lower than 2006.

Net interest income was £260 million, or 12 per cent, higher at £2,409 million compared to £2,149 million in 2006. This increase reflected growth in customer lending and customer deposits in Corporate Markets and Commercial Banking. Average interest-earning assets were £13,132 million, or 11 per cent, higher at £135,707 million. Excluding the fine margin reverse repurchase agreement balances from both years, the increase was £14,602 million. The net interest margin, again excluding the fine margin reverse repurchase agreement balances, decreased by 2 basis points, as a widening of margins within Corporate Markets, in part as a result of changes in funding arrangements, was offset by decreased margins in Commercial Banking, where growth has been in the most competitive products, and in Asset Finance.

Other income was £262 million, or 13 per cent, lower at £1,773 million compared to £2,035 million in 2006; of this movement a decrease of £188 million is attributable to the impact of the market turbulence, excluding which other income decreased by £74 million, or 4 per cent. Increases in banking and transactional income were offset by a reduced level of company registration fees (following the sale of Lloyds TSB Registrars at the end of September 2007) and the impact of changes in funding arrangements.

Operating expenses were £18 million, or 1 per cent, higher at £2,282 million in 2007 compared to £2,264 million in 2006. The increase reflected continued staff investment particularly in the Corporate Markets and Commercial Banking businesses, offset by improvements in the management of day-to-day operating costs.

The impairment charge in 2007 totalled £572 million, of which £92 million is attributable to the impact of market turbulence, compared to £308 million in 2006, an increase of £264 million, or 86 per cent. The charge in respect of loans and advances increased by £184 million, or 59 per cent, from £313 million in 2006 to £497 million in 2007 and the charge as a percentage of average lending was 0.57 per cent compared to 0.39 per cent in 2006. In Corporate Markets the charge was £179 million higher, at £165 million compared to a release of £14 million in 2006; there were significant new charges for certain Corporate customers as well as a charge of £28 million in the leasing business resulting from the change in the UK corporation tax rate from 30 per cent to 28 per cent in 2007, whereas there were net releases in 2006. In Commercial Banking the charge was £5 million higher, at £99 million, and in Asset Finance the charge was £11 million lower, at £228 million, following a tightening of underwriting criteria. In International Banking and other businesses there was a charge of £5 million compared with a release of £6 million in 2006. In addition, a charge of £70 million in 2007 (2006: £nil) arose in respect of the impairment of available-for-sale financial assets.