Lloyds Banking Group plc
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

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

27 February 2009

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

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London
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United Kingdom

(Address of principal executive offices)

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

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

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

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

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

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 27 February 2009

re: Final Results

2008 Results

News release

Lloyds Banking Group plc

BASIS OF PRESENTATION

These results are the results of Lloyds TSB Group plc for the year ended 31 December 2008. Lloyds TSB Group plc was subsequently renamed Lloyds Banking Group plc following the completion of the acquisition of HBOS plc on 16 January 2009.

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 50, note 8)
- a provision in respect of certain historic US dollar payments (page 46, note 6)
- a provision in respect of the Financial Services Compensation Scheme levy (page 12)
- impairment charge in respect of goodwill (page 12),

and in 2007:

- the results of discontinued businesses (page 59, note 19)
- profit on sale of businesses (page 46, note 5), and
- the settlement of overdraft claims.

A reconciliation of this basis of presentation to the statutory profit before tax is shown on page 7.

Unless otherwise stated income statement commentaries throughout this document compare the year ended 31 December 2008 to the year ended 31 December 2007, and the balance sheet analysis reflects the Group balance sheet at 31 December 2008.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. 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, the ability to derive cost savings and other benefits as well as to mitigate

exposures from the acquisition and integration of HBOS, risks concerning borrower credit quality, market related trends and developments, changing demographic trends, changes in customer preferences, changes to regulation, the policies and actions of Governmental and regulatory authorities in the UK or jurisdictions outside the UK, including other European countries and the US, exposure to regulatory scrutiny, legal proceedings or complaints, competition and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of such factors. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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KEY HIGHLIGHTS

"' *We know the short-term outlook for the enlarged group is challenging. Whenever economic conditions do begin to normalise, however, we believe we will be in a very strong position to reap the benefits. Our strong franchise across the whole range of product lines will enable us to do just that. In the meantime, our imperative is to manage the business as effectively as possible during these challenging times, and we have the team to do this."*

Sir Victor Blank

Chairman

· **Statutory profit before tax reduced** by 80 per cent to £807 million. A resilient underlying business performance was offset by the impact of market dislocation (page 9) and adverse volatility relating to the Group's insurance businesses.

- **A resilient business performance.** Profit before tax, on a continuing businesses basis, totalled £2,426 million, a decrease of 35 per cent which reflected the impact of £1,270 million of market dislocation and higher impairment levels.

- **Robust income performance.** Income, excluding market dislocation, grew by 9 per cent reflecting strong revenue growth from the Group's relationship banking businesses. On a statutory basis, income was 8 per cent lower at £9,872 million.

- **Excellent cost management.** The Group's cost:income ratio, excluding market dislocation, improved by 1.1 percentage points to 47.0 per cent.

- **In a difficult economic environment, asset quality remains satisfactory.** Impairment losses increased by 68 per cent to £3,012 million, reflecting the impact of market dislocation, the slowdown in the UK economic environment and the impact of the falling house price index.

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

- **Robust capital ratios.** Adjusting the year end capital ratios for the Government's recapitalisation of UK banks, completed in January 2009, and the estimated impact of the acquisition of HBOS, the enlarged Lloyds Banking Group's proforma core tier 1 capital ratio stands at 6.4 per cent, the tier 1 ratio at 9.8 per cent and the total capital ratio at 12.5 per cent.

GROUP CHIEF EXECUTIVE'S STATEMENT

This has been an extraordinary year, by any measure, and as many commentators have observed, we are in the most severe global downturn since the 1930s. It was triggered by problems in the US housing market, spread to the financial services industry and has now moved on to the broader economy. The United Kingdom has been profoundly impacted by the crisis and as a bank that primarily does its business in the UK, Lloyds TSB has felt the impact. In a year when many financial institutions declared losses, Lloyds TSB did deliver profits, albeit lower than in previous years and I am very aware that, as with the rest of the industry, there has been a sharp reduction in our share price. The year also brought opportunities, and we began the process to acquire the HBOS business, which is probably the most far reaching event in our 243 year history.

Over the past five years, I have reported on our progress toward the aspiration of building the UK's best bank and our approach to developing deep, long-lasting customer relationships. Banking is fundamentally a risk business, and early on we took the decision to manage risk on a 'through the cycle' basis. This means the business will be less impacted by the extreme points in the cycle and that we can continue to support our customers through the changes in the economic climate. As a result our rate of growth in earnings in prior periods did not always match those of our competitors but the quality of our earnings has been demonstrated in this past year.

In my review this year, I will cover three areas; first, the strategic rationale for the transaction and the benefits it will bring, second, the performance of Lloyds TSB in 2008, and third the outlook for the Lloyds Banking Group.

The HBOS acquisition

Throughout the year, it became clear that there were a number of institutions facing significant challenges, both here in the UK and overseas. During the summer months there was a further collapse in confidence in the wholesale markets and for all but the strongest, the pressures of funding reached crisis proportions. Lloyds TSB had pursued a very successful relationship-focused strategy that had delivered good results for all our stakeholders, and we were continuing to perform relatively well. However, as the financial crisis gathered pace and a number of competitors recognised that they could not survive on a standalone basis, it became clear that the industry would begin to consolidate around a smaller number of larger players. It was against this backdrop that we decided to revisit our earlier strategic thinking regarding HBOS.

The opportunity to acquire HBOS was considered against our other strategic options, and before deciding to proceed the Board considered a number of alternatives which included continuing with our existing organic growth strategy, acquiring parts of HBOS and alternate acquisitions. After a thorough review, the Board decided that the HBOS acquisition would offer the highest value-creating strategy for our shareholders and we announced the transaction on 18 September 2008.

We are acquiring £17.9 billion of tangible net asset value with consideration valued at £7.7 billion, even taking into account the losses HBOS announced for 2008. All in, we have acquired a franchise that brings extensive distribution, a large customer base, good people and excellent brands. HBOS had developed a number of specialist businesses that brought greater returns at greater risk, and these did not fit the Lloyds TSB risk appetite. We recognised this in our due diligence and this was reflected in the price we agreed to pay. We are buying the business in the down part of the economic cycle, at a significant discount to book value, which increases the likelihood of value creation, and we paid in shares rather than cash which in some part insulated the Lloyds TSB shareholders from market risk.

The transaction allows us immediately to gain scale in a consolidating market, and it profoundly changes the long-term trajectory for the Group. The acquisition allows us to occupy leading positions in current accounts, retail savings and insurance, mortgages, personal lending and will also provide substantial scale in our corporate and commercial businesses; something that would not have been possible through organic growth alone. There will clearly be revenue synergies arising from the acquisition, as we take the best of the relationship development skills from each business and apply them across the enlarged Group. Whilst these synergies are real, and we will report on them in future periods, they are always more difficult to measure and so we have not included any value for these benefits.

The transaction is essentially an in-market deal, which have historically proven to be amongst the most successful, given they allow greater cost synergies to be captured. We are targeting annualised savings in excess of £1.5 billion in 2011, which represents some 14 per cent of the combined cost base. Work is already underway, with early synergies starting to come from procurement benefits and the more efficient management of the property portfolio. Over £100 million of cost efficiencies have been identified immediately from ceasing projects that will no longer be required in the enlarged Group. Clearly, there will be some staffing reductions resulting from the broad range of programmes we will initiate, but we anticipate that we can accommodate the majority of any reductions through natural staff turnover or limited voluntary redundancy programmes.

The combination of the two businesses provides a strong platform for us to pursue our customer focused growth strategy, built around acquiring relationships and then deepening them. The scale we have now achieved will also allow us to be more efficient and to better leverage future investments.

Whilst it is still relatively early days in terms of the transaction, we have made considerable progress, with the senior 500 executives appointed to run the new Group and we will quickly integrate the businesses. We are identifying those businesses that are priorities for future investment, those where we are adjusting the risk policies to reflect the current environment and those that will require significant change to meet our return hurdles and risk appetite. This is allowing us to focus on developing and growing those core business areas that fit with our relationship-based,

lower-risk model, whilst we squarely address the issues that affect the higher-risk portfolios.

In evaluating the HBOS portfolios last year, we had taken a more conservative forecast than the HBOS internal estimates, recognising they were subject to greater volatility in an economic downturn. Once we took control of HBOS in January, we analysed the portfolios in granular detail, updated our diligence and have begun to apply the Lloyds TSB operating model across the enlarged business. As we began to apply our more conservative provisioning methodologies to their portfolios, and took account of the economic deterioration in the final quarter of the year, the expected losses in that final quarter increased and were finally set at a level £1.6 billion higher than our initial estimate of £8 billion. Whilst this figure is higher than our earlier estimates, it does reflect the size and nature of the HBOS portfolios and the scale of the change in the economic environment.

In line with our plans, we have completed substantial further work to analyse the portfolios. We understand the challenges faced by these portfolios and are taking the necessary actions; for instance, we have reviewed the major exposures in key lines, identified the significant concentrations, revised the credit criteria for key products and withdrawn from certain business lines.

We are prudently managing the capital base, as has been a hallmark of Lloyds TSB. The enlarged Group retains a robust capital position, with an adjusted proforma core tier 1 capital ratio of 6.4 per cent as of 31 December 2008, which means we are well placed to withstand the impact of any slowdown in the economy.

The Lloyds TSB Group performance in 2008

Let me now reflect on the performance of the Lloyds TSB Group in 2008. Whilst all the headlines this past year have been about the economy, the financial crisis and, for us, the HBOS transaction, it is easy to overlook the fact that the Group and our businesses have performed satisfactorily, delivering positive earnings despite the most difficult operating environment in many years.

Our results for the year show a decline in earnings, and on a statutory basis the Group's profit before tax fell by 80 per cent to £807 million. However, I believe a more appropriate way to view the results is to look at our performance on a continuing business basis, and taking this approach the Group profit before tax was £2,426 million, a reduction of 35 per cent.

On a continuing business basis we saw income rise by 2 per cent, as the ongoing market dislocation impacted on an otherwise good performance. Costs rose by 5 per cent, reflecting good cost control in our day-to-day operations which allowed us to further invest in our plans to support the growth of the franchise, with additional relationship staff and improvements to our systems and product range. Impairments were up 68 per cent, reflecting the general slowdown in the economy and a number of specific losses related to the financial crisis and economic downturn.

I would have liked to have delivered an even stronger performance for our shareholders, but in the context of the environment and when many organisations will be reporting losses, I do feel this is a reasonable out-turn. We again used the year well, strengthening the overall business franchise, with an improvement in efficiency, increases in market share, higher customer advocacy scores and we also added to the depth and experience of the management team. Our focus on developing strong franchises continues to offer a strong and sustainable platform for our future growth.

In building our business model, over this period, we have used a balanced scorecard approach throughout the organisation to measure our progress. The balanced scorecard contains five sections; financial performance, franchise growth, customer satisfaction, risk management and people development. As a result of managing each section of the scorecard assiduously, and focusing on a balanced approach to growth, your company was well positioned as the financial crisis struck the industry.

Dividend

As part of the HM Treasury recapitalisation scheme, the Group was required to suspend the payment of cash dividends to ordinary shareholders until the HM Treasury Preference Shares issued as part of the scheme are repaid. In the meantime however, as we indicated in our shareholder circular last year, the Board has approved a capitalisation issue of 1 for 40 ordinary shares held.

Supporting our customers

There has been considerable comment about the performance of the financial services sector this last year and, in particular, support for customers seeking mortgages and the owners of small businesses. I am very proud of the way your company has maintained its support to customers, in line with our relationship-based strategy. Using Bank of England data for the year to December 2008, our lending to individuals grew by 10.7 per cent against the industry average of 5.4 per cent, whilst our lending to private non-financial corporates grew by 22.2 per cent against the industry average of 3.7 per cent. The commitment to our customers is critical to our business strategy, and will continue to be so in 2009.

Outlook

Against a backdrop of recession and an ongoing global financial crisis, we expect 2009 to be another challenging year. Our revenues will be less impacted than many other institutions, as we have a much lower reliance on transactional income, but we will nevertheless be affected by factors such as lower margins driven by lower interest rates and the accounting impact of replacing our single premium payment protection insurance product with a new monthly premium product, as well as the general slowdown in the economy.

We will continue to manage expenses tightly, as you have come to expect of us, but we will incur some additional costs in order to realise the synergies we have announced. Impairments will continue to run at high levels, especially in the higher risk parts of the legacy HBOS portfolios.

Despite the outlook for 2009 being tough, we will use this year to make significant progress in our strategy and to build the UK's leading financial services company. Given the relationship nature of our business, the markets in which we operate, the focus on what I describe as the fundamentals of banking and the return to the more appropriate pricing of risk all play to our strengths and will support our longer-term growth. We are now focused on the integration of the two businesses, which will allow us to offer unparalleled choice and service to our customers, create the platform for the next stage of our growth and provide long-term value for our shareholders.

Summary

Our key businesses have continued to grow, attracting new customers, improving the service to our customers and building our market share. As the crisis continued to impact the UK banking industry, we acquired HBOS in a deal that brought greater stability to the UK banking system and which has allowed Lloyds TSB to rapidly advance its strategic priorities.

The success of this organisation is built on the wonderful contributions of our thousands of staff, and I am very grateful for all they have achieved this last year in serving our customers and executing our plans. It is this consistent level of performance over the last few years, which left us so well placed. The next year will be challenging but I am very confident we will make further substantial progress in building our business, as we begin to establish the UK's leading financial services company.

J Eric Daniels

Group Chief Executive

SUMMARY OF RESULTS

	2008	2007	***Change***
	£m	£m	*%*
Results - statutory			
Total income, net of insurance claims	**9,872**	10,706	*(8)*
Operating expenses	**6,053**	5,567	*(9)*
Trading surplus	**3,819**	5,139	*(26)*
Impairment	**3,012**	1,796	*(68)*
Profit before tax	**807**	4,000	*(80)*
Profit attributable to equity shareholders	**819**	3,289	*(75)*
Economic profit (page 60, note 20)	**(172)**	2,238	
Earnings per share (page 60, note 21)	**14.3p**	58.3p	*(75)*
Post-tax return on average shareholders' equity	**7.4%**	28.2%	
Results - continuing businesses basis			
Total income, net of insurance claims	**11,089**	10,882	*2*
Operating expenses	**5,651**	5,330	*(6)*
Operating expenses, excluding insurance grossing adjustment	**5,582**	5,317	*(5)*
Trading surplus	**5,438**	5,552	*(2)*
Impairment	**3,012**	1,796	*(68)*
Profit before tax	**2,426**	3,756	*(35)*
Profit attributable to equity shareholders	**1,705**	2,739	*(38)*
Economic profit	**731**	1,725	*(58)*
Earnings per share	**29.7p**	48.6p	*(39)*
Post-tax return on average shareholders' equity	**15.8%**	24.3%	

PROFIT ANALYSIS BY DIVISION

	2008	2007 †	***Change***
	£m	£m	*%*
UK Retail Banking (page 17)	**1,793**	1,720	*4*
Insurance and Investments (page 21)	**911**	748	*22*
Wholesale and International Banking (page 28)	**274**	1,300	*(79)*
Central group items (page 15)	**(552)**	(12)	
Profit before tax - continuing businesses	**2,426**	3,756	*(35)*
Volatility (page 50, note 8)			
- Insurance	**(746)**	(277)	
- Policyholder interests	**(471)**	(222)	
Discontinued businesses (page 59, note 19)	**-**	162	
Profit on sale of businesses (page 46, note 5)	**-**	657	

Provision in respect of certain historic US dollar payments	**(180)**	-	
Provision for Financial Services Compensation Scheme levy	**(122)**	-	
Goodwill impairment	**(100)**	-	
Settlement of overdraft claims	**-**	(76)	
Profit before tax - statutory	**807**	4,000	***(80)***
Taxation (page 49, note 7)	**38**	(679)	
Profit for the year	**845**	3,321	***(75)***
Profit attributable to minority interests	**26**	32	
Profit attributable to equity shareholders	**819**	3,289	***(75)***
Earnings per share (page 60, note 21)	**14.3p**	58.3p	***(75)***

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

KEY BALANCE SHEET MEASURES

	31 December 2008 £m	31 December 2007 £m	***Change %***
Balance sheet			
Shareholders' equity	**9,393**	12,141	***(23)***
Net assets per share	**155p**	212p	***(27)***
Total assets	**436,033**	353,346	***23***
Risk-weighted assets	**170,490**	142,567	***20***
Loans and advances to customers	**242,735**	209,814	***16***
Customer deposits	**170,938**	156,555	***9***
Loans to deposits ratio	**142%**	134%	
Risk asset ratios			
Total capital	**11.2%**	11.0%	
Tier 1 capital	**8.0%**	9.5%	
Core tier 1 capital	**5.6%**	7.4%	
Risk asset ratios*			
Total capital	**12.5%**	n/a	
Tier 1 capital	**9.8%**	n/a	
Core tier 1 capital	**6.4%**	n/a	

*31 December 2008, enlarged Group proforma adjusted for capital raisings completed in January 2009 and the acquisition of HBOS plc.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE

During 2008 the Group delivered a resilient core business 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 75 per cent to £819 million and earnings per share decreased by 75 per cent to 14.3p, reflecting the impact of market dislocation, insurance volatility, caused by lower equity markets and wider credit spreads in fixed income markets, and a significant increase in impairment levels. Profit before tax fell by 80 per cent to £807 million.

To enable meaningful comparisons to be made with 2007, the income statement commentaries below are on a continuing businesses basis (see 'basis of presentation').

Building strong customer relationships

The Group's strategy is to build strong customer franchises and we have continued to extend the reach and depth of our customer relationships, achieving good sales growth, whilst also improving productivity and efficiency. As a result, the Group's core relationship businesses have continued to perform well, growing market share in many key areas.

Like many other financial institutions, the Group's Corporate Markets business has been significantly affected by the ongoing impact of market dislocation; however, the relationship focus of our strategy and conservative risk management approach has meant that the impact on the Group's profit before tax was limited to £1,270 million during 2008 (£925 million reduction in income; £345 million increase in impairment) (page 42, note 4). In the extremely challenging and turbulent operating environment in global financial markets, this compares favourably to the impact on many other major financial services companies. The market dislocation 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. Notably, even after fully absorbing this impact, the Wholesale and International Banking division delivered profit before tax of £274 million.

The Group continues to maintain a strong funding and liquidity profile and has continued to obtain funding at market leading rates, with the overall margin impact of funding the Group's balance sheet remaining broadly unchanged. The Group has benefited from improvements in a number of individual product margins, particularly in new mortgages and corporate lending, however the lower interest rate environment in the second half of the year has led to increased pressure on deposit spreads.

Continued momentum throughout the business

Profit before tax, excluding the impact of market dislocation, decreased by £340 million, or 8 per cent, to £3,696 million, as good relationship banking and insurance business momentum was offset by a significant increase in levels of impairment. On this basis and adjusting for insurance grossing (page 15), revenue growth of 8 per cent exceeded cost growth of 5 per cent.

Good income growth

Overall income growth of 8 per cent, excluding the impact of market dislocation and insurance grossing adjustments, reflected continued 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 leading to higher net interest income, as well as an increase in fee-related income.

Group net interest income, excluding insurance grossing (page 15), increased by £1,457 million, or 26 per cent, to £7,058 million. Over the last 12 months, total assets increased by 23 per cent to £436 billion, with a 16 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 9 per cent to £171 billion, supported

by good growth in savings balances in the retail bank, where bank savings increased by 12 per cent and wealth management balances by 20 per cent. Customer deposits in our Corporate Markets, Commercial and International businesses increased by 15 per cent.

The net interest margin from our banking businesses (page 52, note 10) was unchanged at 2.78 per cent, as improved product margins offset an adverse mix effect. Overall product margins were 12 basis points higher, reflecting stronger new business product margins in the mortgage and corporate businesses. Stronger growth in finer margin corporate and mortgage lending than in the wider margin unsecured consumer lending contributed to the negative mix effect which offset the increase in product margins.

Other income, net of insurance claims and excluding insurance grossing, decreased by £1,290 million, or 25 per cent, to £3,952 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.

Strong cost management

The Group continues to invest in improving processing efficiency, resulting in continued tight control over day-to-day operating costs. During 2008, operating expenses increased by 5 per cent to £5,582 million excluding the insurance grossing adjustment. Over the last 12 months, staff numbers increased by 678 (1 per cent) to 58,756, as investment in higher levels of customer facing staff more than offset 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 47.0 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. During 2008 the Group exceeded its expected net cost benefits target of £250 million in 2008 by delivering a total of £311 million net cost benefits from the programme.

Asset quality

In UK Retail Banking, impairment losses increased by £248 million, or 20 per cent, to £1,472 million, particularly reflecting the impact of lower house prices on the mortgage impairment charge. In terms of unsecured lending, our asset quality remains satisfactory. 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 good although the slowdown in economic activity and rising unemployment in the UK has led to arrears rising by 44 per cent over the last 12 months, a trend that is expected to continue. The fall in the house price index during the year has led to an increase of approximately £150 million in the secured impairment charge. Looking forward, our view is for a further fall of similar magnitude in house prices during 2009.

The Wholesale and International Banking charge for impairment losses increased significantly by £936 million to £1,508 million, including a £345 million impairment charge relating to the impact of market dislocation during 2008. The remaining charge reflects an increase in the level of impairments as a result of the economic slowdown in the UK and the impact of a number of high profile financial services company collapses.

Overall, impairment losses increased by 68 per cent to £3,012 million. Our impairment charge on loans and advances expressed as a percentage of average lending was 1.13 per cent, excluding the impact of market dislocation, compared to 0.82 per cent in 2007 (also excluding the impact of the 2007 Finance Act) (page 55, note 14). Impaired assets

increased by 64 per cent to £8,700 million and now represent 3.5 per cent of total lending, up from 2.5 per cent at 31 December 2007.

Exposure to assets affected by current capital markets uncertainties

The Group's relationship focused business model means our Corporate Markets business has limited exposure to assets affected by current capital markets uncertainties (page 42, note 4). During 2008 the Group has successfully taken steps to reduce and restructure these exposures and the related risk and it is anticipated that this process will continue in 2009.

Following the amendment to IAS 39 the Group has reclassified certain assets for which there is no longer an active market and which are now being managed as lending. Assets totalling £2,993 million previously classified as held for trading (measured at fair value through profit and loss) were transferred to loans and advances with effect from 1 July 2008 and a further £437 million of assets previously classified as available for sale (measured at fair value with changes taken to equity) were transferred to loans and advances with effect from 1 November 2008. If these reclassifications had not been made, the Group's income statement for 2008 would have included additional losses of £406 million.

Insurance volatility

A large proportion of the investments held by the Group's insurance business are invested in assets which are expected to be held on a long-term basis and which are inherently subject to short-term investment market fluctuations. Whilst it is expected that those investments will provide enhanced returns over the longer term, the single year impact of investment market volatility can be significant. In 2008, a decline in equity and property markets and a widening of credit spreads in fixed income markets contributed to adverse volatility of £746 million, after adjusting for the effect of illiquidity premia within the annuity business (page 50, note 8). This principally reflects a reduction in the market consistent valuation of the annuity portfolio, driven by the continued widening of corporate bond spreads in 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

In January 2009, the Group announced that it had reached a settlement with both the US Department of Justice and the New York County District Attorney's Office in relation to a previously disclosed investigation involving those agencies into certain historic US dollar payment practices by Lloyds TSB. The Group disclosed in its interim results for the first half of 2008 that it was in discussions regarding a resolution of the investigation and that it had provided £180 million in respect of this matter. The provision was hedged into US dollars at the time and fully covers the settlement amount announced in January 2009. The Group is continuing discussions with the Office of Foreign Assets Control (OFAC) regarding the terms of the resolution of its investigation. OFAC has confirmed to the Group that the amount paid to the US Department of Justice and the New York County District Attorney's Office will be credited towards satisfying any penalty it imposes. The Group does not currently believe that any additional liability requiring provision will arise following the conclusion of the discussions with OFAC. The Group does not anticipate any further enforcement actions as to these issues.

Provision for Financial Services Compensation Scheme levy

The recent arrangements put in place to protect the depositors of Bradford & Bingley and other failed deposit taking institutions involving the Financial Services Compensation Scheme (FSCS) will result in a significant increase in the levies made by the FSCS on the industry. The Group has made a provision of £122 million in its 2008 accounts in respect of its current obligation for the estimated interest cost on the FSCS borrowings. Going forward further provisions in respect of these costs are likely to be necessary until the borrowings are repaid. The ultimate cost to the

industry, which will also include the cost of any compensation payments made by the FSCS and if necessary the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain although it may be significant.

Goodwill impairment

During the year, the basis of goodwill allocation in parts of our Asset Finance business has been changed to treat the consumer finance business as a single cash generating unit encompassing the motor and personal finance operations which provide direct and point of sale finance. The markets in which these units operate have been affected by the UK economic downturn, which has been characterised by falling demand and increasing arrears at this point of the cycle. This, together with uncertainties over the likely short term macroeconomic environment, has resulted in a reassessment of the carrying value of the consumer finance cash generating unit and the recognition of a goodwill impairment charge of £100 million at 31 December 2008.

Taxation

The Group's tax for 2008 was a credit of £38 million. This primarily reflects a significant policyholder interests related tax credit offsetting in full the charge for policyholder interests included in the Group's profit before tax (page 49, note 7).

Robust capital position

At the end of December 2008, the Group's capital ratios remained robust with a total capital ratio on a Basel II basis of 11.2 per cent, a tier 1 ratio of 8.0 per cent and a core tier 1 ratio of 5.6 per cent (page 58, note 17). In September 2008, the Group completed the placing of 284.4 million ordinary shares at a price of 270 pence per share, raising approximately £760 million. Over the last twelve months, risk-weighted assets increased by 20 per cent to £170 billion, reflecting the growth in our Corporate Markets and mortgage businesses, as well as the impact of exchange rate movements which represented 8 percentage points of the increase.

Scottish Widows remains strongly capitalised and, at the end of December 2008, the working capital ratio of the Scottish Widows Long Term Fund was an estimated 21.6 per cent (page 61, note 22). During 2008 a regular 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. As at 31 December 2008, the estimated Insurance Groups Directive (IGD) capital surplus was £0.8 billion, with additional surplus within the Long Term fund totalling an estimated £1.5 billion. This IGD surplus would be unchanged in the event of a 40 per cent reduction in equity markets from the 31 December 2008 position.

Maintaining a strong liquidity and funding position

The current turbulence in global capital markets has been a severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment, and individual institutions have faced varying, but significant, degrees of stress. Throughout this period, the Group has maintained a strong liquidity position which is supported by our strong and stable retail and corporate deposit base. Both retail and corporate deposit inflows have been robust and the Group continues to benefit from its diversity of funding sources. The Group's wholesale funding base has proved to be resilient, supporting the Group's balance sheet growth with an increased level of longer term funding (greater than 1 year).

New initiatives introduced during the course of 2008 by The Bank of England and HM Treasury to facilitate banks' access to senior funding include the Special Liquidity Scheme and Credit Guarantee Scheme, respectively. The Group welcomed these initiatives and, like many of its peers, continues to make use of them for term funding. Going forward, where markets permit and it is economic to do so, the Group expects to reduce this utilisation and further develop and diversify its unguaranteed funding programmes.

Following completion of the HBOS acquisition in January 2009, all of the major rating agencies have updated their ratings for the enlarged Group. Each agency has issued the Group the highest possible short-term rating, and a long-term deposit rating in the 'double A' range. This provides the Group with a strong overall suite of credit ratings.

Acquisition of HBOS

In September 2008, Lloyds TSB and HBOS announced that they had reached agreement on the terms of a recommended acquisition by Lloyds TSB of HBOS, creating a compelling opportunity to accelerate Lloyds TSB's strategy and create the UK's leading financial services group. In October 2008, both Lloyds TSB and HBOS announced that they intended to participate in a co-ordinated package of capital and funding measures for the UK banking sector being implemented by HM Treasury. This led to Lloyds TSB's participation in the raising of £5.5 billion new capital (consisting of £4.5 billion in ordinary shares and £1 billion in preference shares). In addition, HBOS participated in the raising of £11.5 billion (consisting of £8.5 billion in ordinary shares and £3 billion in preference shares). Both of these capital raisings and the HBOS acquisition were completed in January 2009. The Group's board believes that its participation in the Government funding proposal provided the capital necessary to complete the acquisition in a timely fashion, with certainty and on terms that were the best available in current market conditions. The board believes that HM Treasury, which is now a 43.4 per cent shareholder of the Group, will act as a value-oriented shareholder with regard to the strategic development of the Group.

Following the completion of the acquisition and the capital raisings in January 2009, the proforma adjusted capital ratios for Lloyds Banking Group, at 31 December 2008 were 6.4 per cent for core tier 1, 9.8 per cent for tier 1 capital and 12.5 per cent for total capital. The proforma adjusted net tangible asset value of the enlarged Group totalled an estimated £29.5 billion, equivalent to 179p per share (see proforma disclosures on pages 68-76).

A challenging outlook

2008 has been an immensely challenging period for all banks, and the assets on the enlarged Group's balance sheet have shown increasing signs of stress during the year. Whilst our risk management and business support culture is strong, the continuing economic deterioration in the UK will make 2009 another difficult year. We currently expect retail impairment levels to rise significantly in 2009, largely reflecting the expected increase in unemployment levels in the UK and the impact of further house price falls. Corporate impairment levels are expected to remain at the high levels seen during 2008, whilst Treasury asset and investment portfolio write-downs are expected to be significantly lower. Overall, before the recognition of negative goodwill, we expect the enlarged Group to report a loss for 2009.

Tim Tookey

Group Finance Director

SUMMARISED SEGMENTAL ANALYSIS

2008	**UK Retail Banking**	**Insurance and Investments****	**Wholesale and International Banking**	**Central group items**	**Group excluding insurance gross up**	**Insurance gross up****	**Group**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**

Net interest income	4,110	(62)	3,303	(293)	7,058	651	7,709
Other income	1,766	1,749	829	(199)	4,145	(3,624)	521
Total income	5,876	1,687	4,132	(492)	11,203	(2,973)	8,230
Insurance claims	-	(193)	-	-	(193)	3,052	2,859
Total income, net of insurance claims	5,876	1,494	4,132	(492)	11,010	79	11,089
Operating expenses	(2,611)	(591)	(2,350)	(30)	(5,582)	(69)	(5,651)
Trading surplus (deficit)	3,265	903	1,782	(522)	5,428	10	5,438
Impairment	(1,472)	(2)	(1,508)	(30)	(3,012)	-	(3,012)
Profit (loss) before tax*	1,793	901	274	(552)	2,416	10	2,426
Volatility							
- Insurance	-	(746)	-	-	(746)	-	(746)
- Policyholder interests	-	-	-	-	-	(471)	(471)
Provision in respect of certain historic US dollar payments	-	-	(180)	-	(180)	-	(180)
Provision for Financial Services Compensation Scheme levy	(119)	(3)	-	-	(122)	-	(122)
Goodwill impairment	-	-	(100)	-	(100)	-	(100)
Profit (loss) before tax	1,674	152	(6)	(552)	1,268	(461)	807

*Excluding volatility, a provision in respect of certain historic US dollar payments, the Financial Services Compensation Scheme levy and goodwill impairment.

**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.

In the year ended 31 December 2008 the contribution from Central group items was a negative £552 million compared to a negative contribution of £12 million in 2007. The result in 2008 has been significantly affected by the impact of yield curve volatility on the fair value of derivatives entered into for risk management purposes, after taking into account the effect of hedge accounting adjustments. In addition, there were increased central costs that were not recharged to the divisions in connection with professional advice received during the year and an impairment charge in respect of an available-for-sale investment.

SUMMARISED SEGMENTAL ANALYSIS (continued)

2007 †

	UK Retail Banking	Insurance and Investments**	Wholesale and International Banking	Central group items	Group excluding insurance gross up	Insurance gross up**	Group
	£m	£m	£m	£m	£m	£m	£m

Net interest income	3,695	(106)	2,380	(368)	5,601	421	6,022
Other income	1,797	1,741	1,644	362	5,544	6,233	11,777
Total income	5,492	1,635	4,024	(6)	11,145	6,654	17,799
Insurance claims	-	(302)	-	-	(302)	(6,615)	(6,917)
Total income, net of insurance claims	5,492	1,333	4,024	(6)	10,843	39	10,882
Operating expenses	(2,548)	(611)	(2,152)	(6)	(5,317)	(13)	(5,330)
Trading surplus (deficit)	2,944	722	1,872	(12)	5,526	26	5,552
Impairment	(1,224)	-	(572)	-	(1,796)	-	(1,796)
Profit (loss) before tax*	1,720	722	1,300	(12)	3,730	26	3,756
Volatility							
- Insurance	-	(277)	-	-	(277)	-	(277)
- Policyholder interests	-	-	-	-	-	(222)	(222)
Discontinued businesses	-	145	28	-	173	(11)	162
Profit on sale of businesses	-	272	385	-	657	-	657
Settlement of overdraft claims	(76)	-	-	-	(76)	-	(76)
Profit (loss) before tax	1,644	862	1,713	(12)	4,207	(207)	4,000

*Excluding volatility, results of discontinued businesses, profit on sale of businesses 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.

DIVISIONAL PERFORMANCE

UK RETAIL BANKING

Continuing businesses	**2008**	2007 †	***Change***
	£m	£m	***%***
Net interest income	**4,110**	3,695	***11***
Other income	**1,766**	1,797	***(2)***
Total income	**5,876**	5,492	***7***
Operating expenses	**(2,611)**	(2,548)	***(2)***
Trading surplus	**3,265**	2,944	***11***
Impairment	**(1,472)**	(1,224)	***(20)***
Profit before tax	**1,793**	1,720	***4***
Cost:income ratio	**44.4%**	46.4%	
Total assets	**£127.5bn**	£115.0bn	***11***
Risk-weighted assets	**£49.6bn**	£44.8bn	***11***
Customer deposits	**£85.9bn**	£82.1bn	***5***

†Restated, see note 2.

Key highlights

- **Good profit performance, against a backdrop of slowing economic activity.** Profit before tax increased by 4 per cent to £1,793 million.
- **Strong income momentum maintained,** up 7 per cent, supported by overall sales growth of 7 per cent.
- **Good growth in deposits** resulted in a 5 per cent increase in overall deposit balances, with 12 per cent growth in bank savings, and 20 per cent growth in wealth management deposits.
- **Excellent market share of net new mortgage lending,** at 27.5 per cent. Mortgage balances outstanding increased by 11 per cent to £112.9 billion.
- **Improved net interest margin,** 9 basis points higher than in 2007, reflecting improved key product margins, particularly in unsecured personal lending and new mortgages.
- **Continued effective cost management,** with a clear focus on investing to improve service quality and processing efficiency. Operating expenses increased by only 2 per cent and there was an improvement in the cost:income ratio to 44.4 per cent.
- **Strong trading surplus performance,** up 11 per cent to £3,265 million.
- **The quality of new lending continues to be good,** reflecting continued strong credit criteria, although the fall in the house price index over the last twelve months has led to an increase of approximately £150 million in the secured impairment charge during the year. We currently expect retail impairment levels to rise significantly in 2009, largely reflecting the expected increase in unemployment levels in the UK and the impact of further house price falls.

UK RETAIL BANKING (continued)

By making its customers central to its strategy, 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. This has been achieved whilst continuing to operate our lending principles in a responsible manner; by maintaining lending criteria appropriate to the position in the economic cycle, by working with our customers who are experiencing financial difficulties and by ensuring we pass on base rate cuts to our Standard Variable Rate mortgage customers.

Profit before tax from UK Retail Banking increased by £73 million, or 4 per cent, to £1,793 million, reflecting strong levels of franchise growth and effective cost management which offset the higher impairment charge. Total income increased by £384 million, or 7 per cent, whilst operating expenses remained well controlled, increasing by 2 per cent. The trading surplus increased by 11 per cent to £3,265 million.

Growing income from the customer base

The retail bank has continued to make good progress, delivering strong product sales growth and revenue momentum, notwithstanding the challenging UK economic environment. Overall sales increased by 7 per cent, with improvements over a broad range of products and through our wide variety of distribution channels. Both the internet and telephone banking channels performed strongly with sales growth of 29 per cent and 19 per cent respectively. Our continued good sales growth has been driven by strong sales of 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 brand and balance sheet to support increasing customer sales.

Customer deposits have increased by 5 per cent during the year, with particularly strong progress in growing our relationship focused bank savings and wealth management deposit balances, with increases of 12 per cent and 20 per cent respectively. The retail bank opened over two million new savings accounts during 2008.

Current account and savings balances	**31 December 2008 £m**	31 December 2007 £m	***Change %***
Bank savings	**46,941**	41,976	***12***
C&G deposits	**12,433**	14,861	***(16)***
Wealth management	**5,910**	4,939	***20***
UK Retail Banking savings	**65,284**	61,776	***6***
Current accounts	**20,642**	20,305	***2***
Total customer deposits	**85,926**	82,081	***5***

Over the last 12 months, the Group has made significant progress in building its mortgage business, in a mortgage market that has slowed considerably. 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. The Group continues to manage for value, targeting growth in profitable new business rather than overall market share. This approach, together with a recent uplift in interest spreads, has led to new business net interest margins strengthening over the last twelve months.

UK RETAIL BANKING (continued)

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 over one million new current accounts during the year, with a strong performance from the Group's range of added value current accounts with enhanced product features.

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 lending to our current account customer base. Unsecured consumer credit balances increased by 6 per cent, with personal loan balances outstanding at 31 December 2008 up 9 per cent at £12.2 billion, whilst credit card balances were stable at £6.6 billion.

The demand for the Lloyds TSB Airmiles Duo credit card account has continued to be 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 during 2008, and has maintained an estimated new business market share of 13 per cent. In addition, Lloyds TSB was the leading consumer debit card issuer in the UK during the year.

The Group's market share of gross new mortgage lending increased to 10.8 per cent (2007: 8.1 per cent), as the Group continued to maintain its substantial presence in the UK mortgage market. Overall new lending in the UK mortgage market fell by 29 per cent to £258 billion (2007: £363 billion) however the Group's gross new mortgage lending in 2008 fell by only 5 per cent to £27.8 billion (2007: £29.4 billion). The higher market share of gross mortgage lending, 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 27.5 per cent, which partly reflects the withdrawal of a number of competitors from the UK mortgage market. Group mortgage balances outstanding increased by 11 per cent to £112.9 billion.

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 22 per cent, Investment Portfolio cases grew by 16 per cent and wealth management banking deposits increased by 20 per cent. During a period when the FTSE 100 index fell by 31 per cent, Investment Portfolio funds under management decreased by 11 per cent and this led to an overall reduction of 3 per cent in total customer assets.

Improving productivity and efficiency

We have continued to benefit from the 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. These improvements have supported a further improvement in the retail banking cost:income ratio to 44.4 per cent, from 46.4 per cent last year. Average sales by staff in the branch network have shown good growth on the levels achieved in 2007.

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.

UK RETAIL BANKING (continued)

Arrears performance remains satisfactory

Impairment losses on loans and advances were 20 per cent higher at £1,472 million, particularly reflecting the impact of lower house values on the mortgage impairment charge. The impairment charge as a percentage of average lending was higher at 1.22 per cent, compared to 1.10 per cent in 2007. Over 99 per cent of new personal loans and 90 per cent of new credit cards sold during 2008 were to existing customers. The level of arrears in the credit card and personal loan portfolios increased by 26 per cent and 15 per cent respectively reflecting the impact of the slowdown in the UK economic environment.

In terms of unsecured lending, our arrears performance remains satisfactory. 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. We currently expect retail

impairment levels to rise significantly in 2009, largely reflecting the expected increase in unemployment levels in the UK and the impact of further house price falls.

Mortgage credit quality remains good although the slowdown in economic activity and rising unemployment in the UK has led to arrears rising by 44 per cent over the last twelve months. This compares to a rise of 72 per cent in Council of Mortgage Lenders (CML) industry averages in the twelve months to 31 December 2008. The fall in the house price index over the last twelve months has however led to an increase of approximately £150 million in the secured impairment charge during the year. Looking forward, our view is for a further fall of similar magnitude in house price indices during 2009.

In Cheltenham & Gloucester, the average indexed loan-to-value ratio on the mortgage portfolio was 56 per cent, and the average loan-to-value ratio for new mortgages and further advances written during 2008 was 63 per cent. At 31 December 2008, 15 per cent of balances had an indexed loan-to-value ratio in excess of 100 per cent reflecting the significant fall in house prices during the year. Compared to the CML industry averages at 31 December 2008, UK Retail Banking had less than half the industry average for properties in possession and new repossessions as a percentage of total cases in 2008. In addition, arrears in the Group's buy-to-let portfolio represent only a small fraction of our prime portfolio and CML industry averages. We extensively stress-test our lending to changes in macroeconomic conditions and we remain confident in the quality of our mortgage portfolio.

INSURANCE AND INVESTMENTS

Continuing businesses	**2008** **£m**	2007 † £m	***Change*** *%*
Net interest income	**(62)**	(106)	***42***
Other income	**1,749**	1,741	***-***
Total income	**1,687**	1,635	***3***
Insurance claims	**(193)**	(302)	***36***
Total income, net of insurance claims	**1,494**	1,333	***12***
Operating expenses	**(591)**	(611)	***3***
Impairment	**(2)**	-	
Profit before tax, excluding insurance grossing	**901**	722	***25***
Insurance grossing adjustment (page 15)	**10**	26	***(62)***
Profit before tax	**911**	748	***22***
Profit before tax analysis			
Life, pensions and OEICs			
New business profit – life and pensions	**238**	163	***46***
New business loss – OEICs	**(16)**	(22)	***27***
Existing business	**363**	411	***(12)***
Expected return on shareholders' net assets	**50**	45	***11***
	635	597	***6***
General insurance	**234**	110	***113***
Scottish Widows Investment Partnership	**42**	41	***2***
Profit before tax	**911**	748	***22***
Present value of new business premiums (PVNBP)	**10,094**	10,424	***(3)***
PVNBP new business margin (EEV basis) L&P	**3.6%**	3.5%	
PVNBP new business margin (EEV basis) OEICs	**1.3%**	2.0%	
PVNBP new business margin (EEV basis) Total	**2.9%**	3.1%	
Post-tax return on embedded value (EEV basis, page 62, note 23)	**11.4%**	10.7%	

† Restated, see note 2.

Key highlights

- **Strong profit performance**. Profit before tax increased by 22 per cent to £911 million.
- **Good income growth and strong cost management** . Income increased by 3 per cent, whilst operating expenses decreased by 3 per cent.
- **Robust sales performance,** in a challenging market environment resulting in an increase in estimated market share. Scottish Widows' bancassurance sales increased by 4 per cent, whilst sales through the IFA distribution channel decreased by 8 per cent.
- **Continued high returns.** On an EEV basis, the post-tax return on embedded value remained high at 11.4 per cent. New business margins remained resilient at 2.9 per cent.
- **Strong profit performance in General insurance .** Profits more than doubled in 2008 reflecting the absence of the severe weather related claims in 2007, good increases in home insurance income and more efficient claims processing.
- **Resilient performance by Scottish Widows Investment Partnership,** as profit before tax increased against the backdrop of a significant reduction in equity market levels.

INSURANCE AND INVESTMENTS (continued)

Scottish Widows life, pensions and OEICs

Profit before tax, excluding volatility, increased by £38 million, or 6 per cent, to £635 million.

Life and pensions new business profit, on an IFRS basis and excluding volatility, increased by 46 per cent to £238 million, reflecting a higher volume of protection business and the development of an investment bond product which has resulted in a higher proportion of the new business written containing insurance features, which is therefore accounted for on an embedded value basis. Existing business profit decreased by 12 per cent, to £363 million, as an increase in expected profits from the existing business was more than offset by the adverse impact of changes in assumptions, principally reflecting an increase in long-term lapse assumptions.

During 2008, Scottish Widows has continued to make good progress in 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 2008, the value of Scottish Widows' bancassurance new business premiums increased by 4 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 offsetting 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 benefit of product enhancements during the year.

IFA sales

Sales through the IFA distribution channel decreased by 8 per cent, reflecting the general contraction in sales in the IFA market. Scottish Widows' participation in the IFA market remains focused on achieving financial returns which meet the company's internal targets. Sales performance was strong in corporate pensions where an increase in volumes of 19 per cent was achieved whilst maintaining satisfactory margins and returns. Within individual pensions, sales of the Retirement Account, a capital efficient product with a more transparent charging structure, increased by 75 per cent benefiting from product enhancements introduced during the year. Sales of investment bonds reduced by 56 per cent, partly driven by changes in Capital Gains Tax regulations, but also reflecting the company's unwillingness to participate in markets which do not generate an economic return.

INSURANCE AND INVESTMENTS (continued)

Present value of new business premiums (PVNBP)	**2008** **£m**	2007 £m	***Change*** *%*
Life and pensions:			
Protection	**317**	275	***15***
Creditor	**680**	685	***(1)***
Savings and Investments	**437**	913	***(52)***
Individual pensions	**2,125**	2,073	***3***
Corporate and other pensions	**2,482**	2,141	***16***
Retirement income	**939**	1,044	***(10)***
Managed fund business	**217**	486	***(55)***
Life and pensions	**7,197**	7,617	***(6)***
OEICs	**2,897**	2,807	***3***
Life, pensions and OEICs	**10,094**	10,424	*(3)*
Single premium business	**7,346**	8,375	***(12)***
Regular premium business	**2,748**	2,049	***34***
Life, pensions and OEICs	**10,094**	10,424	*(3)*
Bancassurance	**4,247**	4,096	***4***
Independent financial advisers	**5,367**	5,817	***(8)***
Direct	**480**	511	***(6)***
Life, pensions and OEICs	**10,094**	10,424	*(3)*

Improving service and operational efficiency

The business has made further improvements in service and operational efficiencies, and the benefits can be seen in a further reduction of 3 per cent in operating expenses, notwithstanding ongoing investment in product and distribution enhancements. In addition, the strength of Scottish Widows' product and service proposition was recognised through an increased number of industry awards and ratings in 2008; the company was voted best personal pensions provider, achieved two '5 star' service awards and was rated highly for its strong e-commerce platform.

Optimising capital management

The capital position of Scottish Widows has remained robust despite recent market turbulence. Scottish Widows' approach to capital management, including its investments and hedging strategy, has been successful in mitigating the impact of market shocks on its current capital base. Additionally Scottish Widows' capital management strategy is designed to generate sufficient free cash flow to fund new business and maintain dividend flow to the Group. Accordingly, Scottish Widows continues to focus on improving the capital efficiency of its products and identifying further opportunities to improve its capital position. The post-tax return on embedded value, on an EEV basis, increased to 11.4 per cent, partly reflecting a lower value of in-force business resulting from recent falls in investment markets. During 2008, £0.2 billion of capital was paid 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

In addition to reporting under IFRS, the Group, as in previous reporting periods, provides supplementary financial reporting for Scottish Widows on an EEV basis.

Continuing businesses*	**2008 Life, pensions and OEICs £m**	2007 Life, pensions and OEICs £m	***Change %***
New business profit	**295**	326	***(10)***
Existing business			
- Expected return	**321**	296	
- Experience variances	**52**	41	
- Assumption changes	**4**	(32)	
	377	305	***24***
Expected return on shareholders' net assets	**146**	166	***(12)***
Profit before tax, adjusted for capital repatriation*	**818**	797	***3***
Impact of capital repatriation to Group	**-**	21	
Profit before tax*	**818**	818	**-**
New business margin (PVNBP)	**2.9%**	3.1%	
Embedded value (period end) - continuing businesses	**£4,932m**	£5,365m	
Post-tax return on embedded value*	**11.4%**	10.7%	

* Excluding volatility and other items (page 62, note 23).

Adjusting for the impact of capital repatriation to Group, EEV profit before tax from the Group's life, pensions and OEICs business increased by 3 per cent to £818 million in challenging market conditions.

New business profit fell by £31 million, or 10 per cent, to £295 million and the overall new business margin reduced to 2.9 per cent, from 3.1 per cent last year, primarily reflecting higher commission payable on OEIC products. In difficult trading conditions, life and pensions new business profit remained satisfactory with a continued focus on improving product profitability resulting in the new business margin increasing to 3.6 per cent (page 62, note 23).

Existing business profit increased by 24 per cent to £377 million. Expected return increased to £321 million driven by an increase in expected income from our annuity portfolio. The net impact of experience variances in both years is broadly comparable and reflects adverse lapse experience being more than offset by other favourable experience. The net impact of assumption changes in the current year is not significant and reflects a charge from more pessimistic lapse assumptions in life and pensions business which is broadly offset by favourable lapse assumptions in OEICs and other modelling changes. The expected return on shareholders' net assets decreased by £20 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 11.4 per cent.

Insurance and Investments (continued)

Scottish Widows Investment Partnership

Profit before tax from Scottish Widows Investment Partnership (SWIP) increased to £42 million (2007: £41 million). The adverse impact on income of volatile equity and bond markets was more than offset by strong cost management. With the FTSE All-Share Index falling to levels not seen since 2003, SWIP's assets under management decreased by £14.6 billion to £83.0 billion.

Movements in funds under management

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

	2008	2007
	£bn	£bn
Opening funds under management	**102.7**	105.7
Movement in Retail Funds		
Premiums	**11.2**	11.7
Claims	**(4.3)**	(4.8)
Surrenders	**(5.7)**	(6.4)
Net inflow of business	**1.2**	0.5
Investment return, expenses and commission	**(12.5)**	2.4
Net movement	**(11.3)**	2.9
Movement in Institutional Funds		
Lloyds TSB pension schemes	**-**	(5.7)
Other institutional funds	**(0.8)**	(0.6)
Investment return, expenses and commission	**(2.5)**	1.3

Net movement	**(3.3)**	(5.0)
Proceeds from sale of Abbey Life	**-**	1.0
Dividends and surplus capital repatriation	**(0.2)**	(1.9)
Closing funds under management	**87.9**	102.7
Managed by SWIP	**83.0**	97.6
Managed by third parties	**4.9**	5.1
Closing funds under management	**87.9**	102.7

Including assets under management within our UK Wealth Management and International Private Banking businesses, Groupwide funds under management decreased by 10 per cent to £109 billion.

Insurance and Investments (continued)

General Insurance

	2008 **£m**	2007 † £m	***Change*** *%*
Home insurance			
Underwriting income (net of reinsurance)	**441**	418	***6***
Commission receivable	**50**	50	
Commission payable	**(78)**	(77)	***(1)***
	413	391	***6***
Creditor insurance			
Underwriting income (net of reinsurance)	**163**	164	***(1)***
Commission receivable	**428**	510	***(16)***
Commission payable	**(494)**	(574)	***14***
	97	100	***(3)***
Other			
Underwriting income (net of reinsurance)	**8**	9	***(11)***
Commission receivable	**71**	88	***(19)***
Commission payable	**(33)**	(41)	***20***
Other	**32**	19	***68***
	78	75	***4***
Net operating income	**588**	566	***4***
Claims paid on insurance contracts (net of reinsurance)	**(193)**	(302)	***36***
Operating income, net of claims	**395**	264	***50***
Operating expenses	**(161)**	(154)	***(5)***
Profit before tax	**234**	110	***113***
Claims ratio	**30%**	49%	
Combined ratio	**76%**	93%	

†Restated, see note 2. Within the above analysis, profit share receivable has been allocated across product groups, whereas it was previously allocated to other. Comparative figures have been restated accordingly.

Profit before tax from our general insurance operations increased by £124 million, to £234 million, reflecting a £109 million reduction in claims due to the absence of the severe weather related claims experienced in 2007 and the continued benefits from ongoing investment in our claims processes.

Net operating income increased by £22 million, reflecting good increases in new and renewal home insurance premium income. New business premium income increased by 9 per cent and continued investment in our pricing and business retention capabilities delivered 4 per cent growth in renewal earned premiums.

Claims were £109 million lower, principally reflecting the absence of severe weather related claims experienced last year, which more than offset an increase of £15 million in payment protection insurance unemployment claims. Adjusting for the severe weather related claims, the claims ratio improved from 31 per cent to 30 per cent, reflecting continued benefits from ongoing investment in our claims processes and further efficiencies from improved process management.

Insurance and Investments (continued)

General Insurance continues to make good progress against its key strategic initiatives:

Growing share in our chosen customer segments

Growth in total home insurance sales developed good momentum during 2008, with sales through the branch network increasing by 9 per cent, supported by a positive customer reaction to our 5 Star Defaqto Rated home insurance product and strong claims service proposition.

Developing key insurance partnerships

General Insurance continues to invest in the development of its Corporate Partnership distribution arrangements. New partnerships with Resolution Life, Readers Digest, Budget and Post Office Financial Services are expected to underpin further profit delivery over future years.

Improving efficiency and service

Investment in our claims processes continues to deliver improved service and efficiency, with a reduction in property claims ratios and recognition of our customer service teams at the European Call Centre Awards.

An ongoing review of our advertising expenditure and the introduction of further improvements to the targeting of promotional activity have led to further efficiencies, and the cost per product sale improving by 13 per cent.

We have also continued to focus on making our key processes easier for our customers to use. For the second year in succession our website lloydstsbinsurance.co.uk has been ranked as the best home insurance website by worldwide benchmarking organisation, Global Reviews. In addition, in October 2008 Defaqto recognised LloydsTSBCompare.com as the best car insurance price comparison site.

WHOLESALE AND INTERNATIONAL BANKING

Continuing businesses	**2008**	2007 †	***Change***
	£m	£m	***%***
Net interest income	**3,303**	2,380	***39***

Other income	**829**	1,644	***(50)***
Total income	**4,132**	4,024	***3***
Operating expenses	**(2,350)**	(2,152)	***(9)***
Trading surplus	**1,782**	1,872	***(5)***
Impairment	**(1,508)**	(572)	
Profit before tax	**274**	1,300	***(79)***

†Restated, see note 2.

Cost:income ratio	**56.9%**	53.5%	
Cost:income ratio, excluding market dislocation	**46.5%**	51.1%	
Post-tax return on average risk-weighted assets	**0.16%**	1.14%	
Total assets	**£238.8bn**	£163.3bn	***46***
Risk-weighted assets	**£115.7bn**	£92.8bn	***25***
Customer deposits	**£82.9bn**	£72.3bn	***15***

Key highlights

- **Resilient profit performance despite the turbulence in global financial markets.** The division remained profitable even after absorbing the increased impact of its exposure to assets affected by current capital markets uncertainties and a significant rise in corporate impairments. The impact of recent market dislocation, however, has been to reduce profit before tax in 2008 by £1,270 million (2007: £280 million), to £274 million.

- **Continued strong relationship banking momentum.** Excluding the impact of market dislocation, profit before tax decreased by 2 per cent, to £1,544 million, reflecting good levels of core business momentum which was largely offset by a significant increase in corporate impairment levels reflecting the challenging economic environment and additional write-offs relating to a number of high profile financial services company collapses.

- **Strong progress in expanding our Corporate Markets franchise,** with a 34 per cent increase in Corporate Markets income, excluding market dislocation, supported by an 85 per cent increase in cross-selling income. This was largely offset however by the significant rise in impairments.

- **Continued investment in our people and infrastructure** in our Corporate Markets business led to an increase of 9 per cent in operating expenses, or 8 per cent excluding the impact of exchange rate movements.

- **Good franchise growth in Commercial Banking,** with a further increase in our market share of higher value customers supporting a 7 per cent growth in income, which was partially offset by an £89 million increase in impairments.

- **Significant lending growth,** as our Corporate Markets and Commercial Banking businesses continued to provide substantial support to our mid-corporate market and SME customers.

- **Our risk management remains strong with satisfactory asset quality,** despite a rise of £936 million in impairment losses, largely as a result of the £253 million year-on-year impact of market dislocation, a number of high profile financial services company collapses and an increase in the level of impairments reflecting the economic slowdown in the UK.

Wholesale and International Banking (continued)

In **Wholesale and International Banking**, the Group has continued to make progress in its strategy to develop the Group's strong corporate and small to medium business customer franchises, however the division has continued to be significantly affected by the impact of market dislocation and the increase in impairments relating to the deteriorating economic environment and a number of high profile financial services company collapses. In Corporate Markets, further good progress has been made in developing our relationship banking franchise supported by a strong cross-selling performance and in Commercial Banking, strong growth in business volumes, further customer franchise improvements and good progress in improving operational efficiency, were offset by the significant increase in impairment levels.

Overall, the division remained profitable, however profit before tax decreased by 79 per cent to £274 million, largely reflecting the £990 million reduction in profits, compared to last year, as a result of market dislocation. A strong revenue performance in our relationship banking businesses contributed to overall income growth, excluding the impact of market dislocation, of 20 per cent, driven by strong Corporate Markets and Commercial Banking income growth of 34 per cent and 7 per cent respectively. This exceeded cost growth of 9 per cent, which largely reflected further investment in building the Corporate Markets business, higher depreciation charges in Asset Finance and the impact of exchange rate movements. The cost:income ratio, excluding the impact of market dislocation, improved to 46.5 per cent, from 51.1 per cent last year.

The charge for impairment losses was £936 million higher at £1,508 million, as a result of an increase of £253 million in the impact of market dislocation, and a significant increase in the level of impairments reflecting the economic slowdown in the UK and the impact of a number of high profile financial services company collapses. 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 over the last few years.

Profit before tax by business unit	**2008**	2007 †	***Change***
	£m	£m	***%***
Corporate Markets			
- Before impact of market dislocation	**1,002**	1,010	***(1)***
- Impact of market dislocation	**(1,270)**	(280)	
	(268)	730	
Commercial Banking	**454**	469	***(3)***
Asset Finance	**2**	39	***(95)***
International Banking	**149**	138	***8***
Other	**(63)**	(76)	
Profit before tax			
- Before market dislocation	**1,544**	1,580	***(2)***
- Market dislocation	**(1,270)**	(280)	
	274	1,300	***(79)***

†Restated, see note 2.

Wholesale and International Banking (continued)

Corporate Markets	**2008**	2007 †	***Change***
	£m	£m	*%*
Net interest income	**1,784**	982	***82***
Other income	**(316)**	620	
Total income	**1,468**	1,602	***(8)***
Operating expenses	**(691)**	(632)	***(9)***
Trading surplus	**777**	970	***(20)***
Impairment	**(1,045)**	(240)	
Profit before tax	**(268)**	730	

†Restated, see note 2.

In Corporate Markets, profit before tax fell by £998 million, compared to last year, reflecting a combination of the impact of market dislocation and a substantial increase in impairment charge. Excluding the impact of market dislocation, profit before tax decreased by £8 million. On this basis, income increased by 34 per cent, supported by strong growth in corporate lending and an 85 per cent increase in cross-selling income. This growth in cross-selling income has continued to be supported by the Group's ability to leverage its strong funding capabilities and obtain funding at market leading rates, which has enabled the Corporate Markets business to continue to grow during a difficult 2008. Throughout this period, Corporate Markets has continued to invest in building its product capabilities and has been fulfilling substantially increased customer demand for interest rate and currency derivative products. This has enabled the business to further deepen its customer relationships, with Corporate Banking the only UK bank lender to have a positive net promoter score (TNS survey) as well as being awarded with 'Real Finance/CBI FDs' Excellence Awards - Corporate Bank of the Year' for the fourth year running.

Operating expenses increased by 9 per cent to £691 million, reflecting significant further investment in people to support the substantial business growth in our Corporate Markets relationship business. The substantial increase in the impairment charge reflects an increase in the level of impairments as a result of the economic slowdown in the UK, market dislocation and the impact of a number of high profile financial services company collapses during the second half of the year.

Wholesale and International Banking (continued)

Commercial Banking	**2008**	2007 †	***Change***
	£m	£m	