Lloyds TSB Group plc

Results for the half-year

to 30 June 2004

PRESENTATION OF RESULTS

In order to provide a clearer representation of the underlying performance of the Group, the results of the Group's life and pensions, and general insurance businesses include investment earnings calculated using longer-term investment rates of return (page 42, note 7). The difference between the normalised investment earnings and the actual return ('the investment variance') together with the impact of changes in the economic assumptions used in the embedded value calculation (page 43, note 8), and the profit on the sale of a number of overseas businesses in 2003 (page 43, note 9) have been separately analysed and a reconciliation to the Group's profit before tax is shown on page 1.

Unless otherwise stated, the profit and loss analysis in this document compares the half-year to 30 June 2004 to the corresponding period of 2003.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds TSB Group, its current goals and expectations relating to its future financial condition and performance. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Lloyds TSB Group's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks such as interest rate risk and exchange rate risk in its banking business and equity risk in its insurance businesses, changing demographic trends, unexpected changes to regulation or regulatory actions, changes in customer preferences, competition and other factors. Please refer to the latest Annual Report on Form 20-F of Lloyds TSB Group filed with the US Securities and Exchange Commission for a discussion of such factors.

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PROFIT BEFORE TAX BY MAIN BUSINESSES

	Half-year to 30 June **2004** **£m**	Half-year to 30 June 2003 £m	Half-year to 31 December 2003 £m
UK Retail Banking			
Before provisions for customer redress	**818**	793	878
Provisions for customer redress	**-**	(200)	-
	818	593	878
Insurance and Investments			
Before provisions for customer redress	**378**	345	320
Provisions for customer redress	**-**	(100)	-
	378	245	320
Wholesale and International Banking (continuing operations)	**616**	488	550
Central group items	**(167)**	145	(157)
Profit before tax from continuing operations, excluding changes in economic assumptions, investment variance and (loss) profit on sale of businesses	**1,645**	1,471	1,591
Changes in economic assumptions (page 43, note 8)	**7**	(8)	(14)
Investment variance (page 42, note 7)	**(72)**	42	83
Loss on sale of businesses in 2004	**(16)**	-	-
Discontinued operations in 2003	**-**	177	1,006
Profit before tax	**1,564**	1,682	2,666

2003 figures have been restated to reflect changes in the Group's segmental analysis following the introduction, in 2004, of the management of the Group's distribution channels as profit centres, and other changes in internal pricing arrangements. These changes have not resulted in any restatement to Group profit before tax.

PERFORMANCE HIGHLIGHTS

This analysis compares the half-year to 30 June 2004 to the corresponding period in 2003.

Results - statutory

- Profit before tax decreased by £118 million, or 7 per cent, to £1,564 million.
- Profit attributable to shareholders decreased by £75 million, or 6 per cent, to £1,083 million.
- Earnings per share decreased by 6 per cent to 19.4p.
- Post-tax return on average shareholders’ equity 22.1 per cent.
- Total capital ratio 10.6 per cent, Tier 1 capital ratio 9.5 per cent.
- Interim dividend of 10.7p per share (2003: 10.7p).

Results - continuing operations excluding investment variance, changes in economic assumptions and loss on sale of businesses

- Profit before tax increased by £174 million, or 12 per cent, to £1,645 million.
- Earnings per share increased by 13 per cent to 20.6p.
- Economic profit increased by 10 per cent to £710 million.
- Post-tax return on average shareholders’ equity 23.5 per cent.
- Post-tax return on average risk-weighted assets increased to 1.95 per cent.

Key achievements - continuing operations

- The Group has continued to improve its market share in key product areas.
- Good franchise growth with customer lending up by 9 per cent to £142 billion and customer deposits up by 4 per cent to £118 billion.
- Income growth exceeded cost growth as strict cost control has been maintained in all businesses, (page 45, note 12).
- Asset quality remains strong.
- Capital ratios remain strong.

PERFORMANCE HIGHLIGHTS – CONTINUING OPERATIONS

Key achievements - UK Retail Banking

- Strong balance growth in mortgages, credit cards, personal loans and current account deposits.
  - Mortgage balances increased by 13 per cent to £76.3 billion.
  - Credit card balances increased by 31 per cent to £7.2 billion, or by 14 per cent excluding the Goldfish acquisition.
  - Personal loan balances increased by 12 per cent to £10.0 billion.
  - Current account deposits increased by 10 per cent to £18.2 billion.
- 20 per cent increase in sales from direct channels.
- 13 per cent increase in quality customer current account recruitment.
- Profit before tax, excluding customer redress provisions, increased by 3 per cent to £818 million.

Key achievements - Insurance and Investments

- New business contribution in Scottish Widows increased by 7 per cent.
- Life and pensions new business margin increased to 24.3 per cent, from 23.4 per cent in the first half of 2003.
- Improvements made in the bancassurance product offer, including new product launches.
- 24 per cent increase in weighted sales in second quarter of 2004, compared to the first quarter of 2004.
- Scottish Widows remains on track to pay a 2004 dividend to Lloyds TSB Group.
- Profit before tax, excluding customer redress provisions, changes in economic assumptions and investment variance, increased by 10 per cent to £378 million.

Key achievements - Wholesale and International Banking

- Good progress in delivering our strategy of leveraging existing business and corporate customer relationships.
- 10 per cent increase in corporate relationship banking income.
- All businesses performing well; strong new business pipeline.
- Strong market share growth in motor finance.
- Cost control maintained.
- Significant improvement in asset quality.
- Improved capital efficiency - return on risk-weighted assets, excluding loss on sale of businesses, improved to 1.44 per cent, from 1.11 per cent in the first half of 2003.
- Profit before tax, excluding loss on sale of businesses, increased by 26 per cent to £616 million.

SUMMARY OF RESULTS

	Half-year to 30 June 2004	Half-year to 30 June 2003	Increase (Decrease)	Half-year to 31 December 2003
Results - statutory	**£m**	£m	%	£m
Total income	**4,530**	4,937	(8)	4,971
Operating expenses	**2,363**	2,627	(10)	2,546
Trading surplus	**2,167**	2,310	(6)	2,425
Provisions for bad and doubtful debts	**442**	470	(6)	480
Profit before tax	**1,564**	1,682	(7)	2,666
Profit attributable to shareholders	**1,083**	1,158	(6)	2,096
Economic profit (page 41, note 4)	**643**	788	(18)	1,705
Earnings per share (pence)	**19.4**	20.7	(6)	37.6
Post-tax return on average shareholders' equity (%)	**22.1**	28.1		48.3
Results - continuing operations, excluding investment variance, changes in economic assumptions and (loss) profit on sale of businesses				
Total income	**4,595**	4,528	1	4,624
Operating expenses	**2,363**	2,484	(5)	2,417
Trading surplus	**2,232**	2,044	9	2,207
Provisions for bad and doubtful debts	**442**	430	3	457
Profit before tax	**1,645**	1,471	12	1,591
Economic profit	**710**	647	10	682
Earnings per share (pence)	**20.6**	18.2	13	19.2
Post-tax return on average shareholders' equity (%)	**23.5**	n/a		n/a
Balance sheet	**£m**	£m		£m
Shareholders' equity	**10,098**	8,603	17	9,624
Net assets per share (pence)	**178**	152	17	170
Total assets	**266,861**	264,476	1	252,012
Loans and advances to customers	**141,508**	141,990	-	135,251
Customer deposits	**118,300**	121,433	(3)	116,496
Risk asset ratios	**%**	%		%
Total capital	**10.6**	10.1		11.3
Tier 1 capital	**9.5**	8.1		9.5
Shareholder value				
Closing market price per share (period-end)	**431.75p**	430p		448p
Total market value of shareholders' equity	**£24.2bn**	£24.0bn		£25.1bn
Dividends per share	**10.7p**	10.7p		23.5p

GROUP CHIEF EXECUTIVE'S REVIEW OF PERFORMANCE

Lloyds TSB has continued to make good progress in implementing the key priorities that were set out in 2003 to provide the framework for profitable franchise growth. The Group's results for the first half of the year have been significantly affected by the impact of the overseas business disposals made in the second half of 2003. However the Group has continued to make financial and strategic progress in each of its three business areas, notwithstanding net interest margin pressures in the retail business.

During the first half of 2004, statutory profit before tax decreased by £118 million, or 7 per cent, to £1,564 million, largely as a result of the impact of the overseas business disposals made last year and a negative investment variance in the Group's insurance businesses in the first half of 2004. Profit attributable to shareholders was 6 per cent lower at £1,083 million and earnings per share decreased by 6 per cent to 19.4p. The post-tax return on average shareholders' equity was 22.1 per cent.

To enable meaningful comparisons to be made with prior periods it is appropriate to exclude the impact of business disposals, investment variances and changes in economic assumptions in the Group's insurance businesses. On this basis, profit before tax increased by £174 million, or 12 per cent, to £1,645 million. In key product areas the Group continued to grow market share, particularly in mortgages and credit cards. As a result, on a continuing operations basis, over the last twelve months customer lending grew by 9 per cent to £142 billion, and customer deposits increased by 4 per cent to £118 billion. On the same basis, the Group net interest margin was 2.89 per cent, compared to 2.92 per cent. The strong growth in lending and deposit volumes, however, ensured that this reduction in the Group net interest margin was more than compensated for by volume growth, resulting in an overall increase in net interest income from continuing operations of 7 per cent.

As a result of the Group's constant focus on cost control the cost:income ratio improved to 51.4 per cent, compared with 52.7 per cent. Total income, on a consistent basis, increased by 6 per cent, whilst operating expenses increased by 3 per cent (page 45, note 12).

Management priorities

In 2003, the management team set a series of priorities to guide the Group and provide a framework to build the franchise. The three key themes are:

- to manage actively the portfolio of businesses and to reduce risk and earnings volatility,
- to maintain and build profitability, and,
- to deliver profitable growth.

We have continued to make good progress in each of these priorities and the main achievements over the last six months are summarised below.

Managing the business portfolio

Having disposed of a number of overseas businesses in 2003, the Group has now completed the disposal of its businesses in Panama and Guatemala, and the sale of the Group's business in Honduras, which remains subject to approval by regulatory authorities, is expected to be completed during the second half of 2004. In July 2004, the Group also announced the sale, subject to regulatory approvals, of its businesses in Argentina and Colombia. The Group's exposure to Latin America has been significantly reduced over the last twelve months, reducing potential sources of earnings volatility and allowing the Group to concentrate its resources on its core retail and corporate customer franchises.

We have also continued to make progress in improving our risk management processes through effectively embedding the Group's new risk infrastructure and governance framework, improving our reporting of the Group's consolidated risk position, and enhancing our planning procedures. Credit quality is strong and we maintain tight control over risk positions and quality.

We continue to build on our customer development programme designed to guide the organisation into building deeper long-term relationships which will both further strengthen our customer franchise and address the risks of regulatory censure.

Maintaining and building profitability

In our key financial measures of performance, during the first half of 2004 the Group's continuing operations, excluding investment variance, changes in economic assumptions and loss on sale of businesses, have delivered a 10 per cent increase in economic profit to £710 million, and a post-tax return on equity of 23.5 per cent. In all areas of our business the Group has continued to focus on capital efficient profit growth and, as a result, the Group's return on average risk-weighted assets, on the same basis, increased to 1.95 per cent, from 1.86 per cent in the first half of 2003. In our life assurance business we have continued to focus on more profitable and capital efficient business and, consequently, we have achieved increases in both the contribution from new business and in the life and pensions new business margin.

Our cost performance continues to be strong and strict cost control remains a high priority throughout the Group. In the first half of 2004, operating expenses in the Group's continuing operations, excluding customer redress provisions, increased by 3 per cent. Our focus on reducing day-to-day operating costs has continued and during the last 6 months we have extended the use of our quality approach to process management to cover over 50 per cent of the Group's transactions. In the first half of the year the Group improved its quality measures and this has resulted in an improvement in both customer satisfaction and our operational efficiency.

Asset quality has remained strong and the Group's charge for provisions for bad and doubtful debts, from continuing operations, improved to 0.63 per cent, compared to 0.66 per cent in the first half of last year. Non-performing lending as a percentage of total lending decreased to 0.8 per cent from 1.0 per cent 12 months ago, largely reflecting the improved quality of the Group's corporate lending portfolio.

Delivering growth

In **UK Retail Banking** we have focused our attention on delivering strong franchise growth during a period of extensive business re-engineering. During the first half of the year, the Group undertook a pilot in Central London which has significantly increased the autonomy and accountability of business managers within their local markets. The change has been accompanied by a move from just measuring sales volumes to measuring value creation. The results have already led to an improved performance in quality customer recruitment, new product sales and staff and customer service levels, and we will be managing all our branch network on this business model during the second half of 2004.

There was strong growth in credit card balances, up 31 per cent, and in personal loan balances outstanding, up 12 per cent, (14 per cent and 11 per cent respectively excluding the impact of the Goldfish lending portfolios which were acquired in the second half of 2003). Current account deposit balances increased by 10 per cent. In the mortgages business net new lending was a record £5.5 billion, resulting in an estimated market share of net new lending of 10.4 per cent. These good levels of franchise growth were however partly offset by a reduction in the net interest margin. Costs remained tightly controlled and asset quality remains satisfactory. Excluding the £200 million provision for customer redress taken in the first half of 2003, pre-tax profit from UK Retail Banking increased by £25 million, or 3 per cent, to £818 million.

In **Insurance and Investments** we have increased our focus on more profitable and capital efficient products and have seen good improvements in profitability in many product areas. The Group has continued its focus on multi-channel distribution and, in particular, has made progress in repositioning the Group’s offer through the branch network. We have improved the efficiency of the salesforce, launched a number of new products specifically designed for distribution through the branch network, and are in the process of simplifying sales processes.

Excluding investment variance, changes in economic assumptions and the £100 million provision for customer redress taken in the first half of 2003, pre-tax profits from Insurance and Investments increased by 10 per cent to £378 million. New business contribution increased by 7 per cent and the margin on new business increased to 24.3 per cent, from 23.4 per cent in the first half of 2003. Overall, weighted sales in the Group’s life, pensions and unit trust businesses in the first half of 2004 were slightly lower at £354.6 million. There was however a 24 per cent increase in weighted sales in the second quarter of 2004, compared with the first quarter of 2004. In the Group’s general insurance operations, continued growth in household insurance revenues, which increased by 8 per cent, was partly offset by a reduction in creditor insurance revenues.

In **Wholesale and International Banking**, our key focus has been on leveraging our existing business and corporate customer franchises to deepen relationships. We have broadened our product range, and positive results are emerging from the closer co-ordination of our Corporate and Financial Markets businesses. The Wholesale Bank has delivered good performance in all major business units during the first half of 2004, and has improved capital efficiency and returns.

The post-tax return on average risk-weighted assets for Wholesale and International continuing operations, excluding loss on sale of businesses, increased to 1.44 per cent from 1.11 per cent.

Wholesale and International Banking pre-tax profit from continuing operations, excluding loss on sale of businesses, increased by 26 per cent to £616 million, largely as a result of an increase of 10 per cent in corporate relationship banking revenues, strong profit growth in the asset finance and development capital businesses and a reduction in provisions for bad and doubtful debts. The division has a strong new business pipeline going into the second half of the year.

Capital position

Over the last twelve months the Group's capital position has strengthened considerably. At 30 June 2004, the total capital ratio was 10.6 per cent (30 June 2003: 10.1 per cent) and the Tier 1 capital ratio was 9.5 per cent (30 June 2003: 8.1 per cent). The Group continues to plan for risk-weighted asset growth of mid-to-high single digits over the next few years, and expected profit retentions are sufficient to support this level of risk-weighted asset growth within the Group's current capital management policy. Scottish Widows remains one of the most strongly capitalised life assurance companies in the UK, and we remain satisfied with Scottish Widows' overall capital position calculated using the Financial Services Authority's new 'realistic' basis of balance sheet reporting. On a market consistent basis, we estimate a 'realistic' surplus within the long-term fund of Scottish Widows which is more than three times the required risk capital margin. Scottish Widows remains on track to pay a 2004 dividend to Lloyds TSB.

The Group continues to generate strong cash flows from its banking operations and remains one of the most profitable major banks in the world. Lloyds TSB continues to be one of only two large commercially owned banks in the world, and the only UK bank, to have a 'triple A' rating from Moody's. The Group has a clear focus on delivering organic growth, however, we also wish to maintain the flexibility to make value enhancing 'in market' acquisitions such as Goldfish and the asset finance businesses. The Board has decided to maintain the interim dividend at 10.7p per share.

Looking forward

During the first half of 2004 we have continued to focus on growth, against a backdrop of substantial economic, regulatory and competitive pressures, and have made good progress in all key areas. The continuing evolution and implementation of our organic growth strategies through the targeted delivery of profitable top line revenue growth in excess of cost growth, should ensure the Group can successfully combine sustainable growth in economic profit and a continuing high return on equity. Despite the increasingly challenging external environment, we are establishing a track record of earnings growth and remain well positioned to deliver an improved trading performance in the second half of 2004 and beyond.

J Eric Daniels
Group Chief Executive

SEGMENTAL ANALYSIS (unaudited)

Half-year to 30 June 2004	UK Retail Banking £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items £m	Continuing operations £m	Discontinued operations £m	Total £m
Net interest income	**1,589**	**50**	**967**	**(168)**	**2,438**	**-**	**2,438**
Other finance income	**-**	**-**	**-**	**19**	**19**	**-**	**19**
Other income	**767**	**582**	**785**	**4**	**2,138**	**-**	**2,138**
Total income	**2,356**	**632**	**1,752**	**(145)**	**4,595**	**-**	**4,595**
Operating expenses	**1,193**	**133**	**1,015**	**22**	**2,363**	**-**	**2,363**
Trading surplus (deficit)	**1,163**	**499**	**737**	**(167)**	**2,232**	**-**	**2,232**
General insurance claims	**-**	**121**	**-**	**-**	**121**	**-**	**121**
Bad debt provisions	**344**	**-**	**98**	**-**	**442**	**-**	**442**
Amounts written off fixed asset investments	**-**	**-**	**23**	**-**	**23**	**-**	**23**
Share of results of joint ventures	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Profit (loss) before tax*	**818**	**378**	**616**	**(167)**	**1,645**	**-**	**1,645**
Loss on sale of businesses	**-**	**-**	**(16)**	**-**	**(16)**	**-**	**(16)**
Changes in economic assumptions	**-**	**7**	**-**	**-**	**7**	**-**	**7**
Investment variance	**-**	**(72)**	**-**	**-**	**(72)**	**-**	**(72)**
Profit (loss) before tax	**818**	**313**	**600**	**(167)**	**1,564**	**-**	**1,564**

Half-year to 30 June 2003†	UK Retail Banking £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items £m	Continuing operations £m	Discontinued operations £m	Total £m
Net interest income	1,515	39	898	(167)	2,285	286	2,571
Other finance income	-	-	-	17	17	-	17
Other income	741	447	750	288	2,226	89	2,315
Total income	2,256	486	1,648	138	4,528	375	4,903
Operating expenses	1,354	133	991	6	2,484	143	2,627
Trading surplus	902	353	657	132	2,044	232	2,276
General insurance claims	-	108	-	-	108	-	108
Bad debt provisions	298	-	145	(13)	430	40	470
Amounts written off fixed asset investments	-	-	24	-	24	-	24
Share of results of joint ventures	(11)	-	-	-	(11)	-	(11)
Profit before tax*	593	245	488	145	1,471	192	1,663
Loss on sale of businesses	-	-	-	-	-	(15)	(15)
Changes in economic assumptions	-	(8)	-	-	(8)	-	(8)
Investment variance	-	42	-	-	42	-	42
Profit before tax	593	279	488	145	1,505	177	1,682

*excluding loss on sale of businesses, changes in economic assumptions and investment variance

†restated (page 38, note 1)

SEGMENTAL ANALYSIS (unaudited)

Half-year to 31 December 2003†	UK Retail Banking £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items £m	Continuing operations £m	Discontinued operations £m	Total £m
Net interest income	1,622	42	977	(182)	2,459	225	2,684
Other finance income	-	-	-	17	17	-	17
Other income	792	534	811	11	2,148	53	2,201
Total income	2,414	576	1,788	(154)	4,624	278	4,902
Operating expenses	1,229	128	1,057	3	2,417	129	2,546
Trading surplus (deficit)	1,185	448	731	(157)	2,207	149	2,356
General insurance claims	-	128	-	-	128	-	128
Bad debt provisions	296	-	161	-	457	23	480
Amounts written off fixed asset investments	-	-	20	-	20	-	20
Share of results of joint ventures	(11)	-	-	-	(11)	-	(11)
Profit (loss) before tax*	878	320	550	(157)	1,591	126	1,717
Profit on sale of businesses	-	-	-	-	-	880	880
Changes in economic assumptions	-	(14)	-	-	(14)	-	(14)
Investment variance	-	83	-	-	83	-	83
Profit (loss) before tax	878	389	550	(157)	1,660	1,006	2,666

*excluding profit on sale of businesses, changes in economic assumptions and investment variance

†restated (page 38, note 1)

PERIOD END ASSETS BY MAIN BUSINESSES

	30 June **2004** **£m**	30 June 2003 £m	31 December 2003 £m
UK Retail Banking	**96,843**	85,651	90,541
Insurance and Investments*	**9,728**	9,400	9,844
Wholesale and International Banking (continuing operations)	**109,386**	105,427	101,286
Central group items	**281**	356	263
Total assets - continuing operations*	**216,238**	200,834	201,934
Discontinued operations	**-**	15,951	-
Total assets*	**216,238**	216,785	201,934

*excluding long-term assurance assets attributable to policyholders

PERFORMANCE BY SECTOR

UK Retail Banking
(covering the Group's UK retail businesses, providing banking and financial services to personal customers; mortgages; and private banking)

	Half-year to 30 June		Half-year to 31 December
	2004	2003†	2003†
	£m	£m	£m
Net interest income	**1,589**	1,515	1,622
Other income	**767**	741	792
Total income	**2,356**	2,256	2,414
Operating expenses:			
Before provisions for customer redress	**1,193**	1,154	1,229
Provisions for customer redress	**-**	200	-
	1,193	1,354	1,229
Trading surplus	**1,163**	902	1,185
Provisions for bad and doubtful debts	**344**	298	296
Share of results of joint ventures	**(1)**	(11)	(11)
Profit before tax	**818**	593	878
Profit before tax, before provisions for customer redress	**818**	793	878
Cost:income ratio, before provisions for customer redress	**50.6%**	51.2%	50.9%
Total assets (period-end)	**£96.8bn**	£85.7bn	£90.5bn
Total risk-weighted assets (period-end)	**£57.6bn**	£51.9bn	£54.1bn

†restated (page 38, note 1)

Profit before tax from UK Retail Banking increased by £225 million, or 38 per cent, to £818 million, compared to £593 million in the first half of 2003, supported by continued strong growth in the Group's consumer lending portfolios, particularly mortgages and credit cards, higher current account credit balances, a strict focus on cost control and the absence of a provision for customer redress. Excluding the impact of the £200 million provision for customer redress taken in the first half of 2003, profit before tax from UK Retail Banking increased by 3 per cent, as the good levels of franchise growth were partly offset by product margin erosion. Income growth of 4 per cent exceeded cost growth, excluding customer redress provisions, of 3 per cent.

The **UK Retail Banking** strategy focuses on the delivery of tailored and personalised customer offers and products to recruit and retain quality customers by meeting their individual needs and deepening our relationship with them.

UK Retail Banking (continued)

As part of our focus on delivering value, we are becoming increasingly customer focused. All distribution channels are now profit centres, rather than cost centres, resulting in greater accountability for the distribution profit of all retail products including bancassurance products. We have fundamentally restructured our retail branch network through the establishment of 165 profit centred local markets, moving decision making closer to the customers and investing in more front line staff at the expense of regional and head office jobs. As part of this exercise, during the first half of 2004, we have focused on developing our business in the London and South East markets where Lloyds TSB is currently under represented.

We have introduced commission based payments to our distribution channels for new business, and further improved our sales capabilities within our telephony and internet channels. We continue to leverage our multi-channel capability to provide convenient service to customers whilst migrating activities to lower cost channels where appropriate. More than 1.5 million customers are now active users of internet banking.

Over the last six months, we have maintained or increased our leading market share in key product areas including personal loans, credit cards, mortgages and current accounts. Within personal loans, key initiatives include the use of behavioural and risk-based pricing, leveraging our data advantage to identify key target segments, enabling the Group to deliver more competitive pricing to quality customers and to price by distribution channel within the Lloyds TSB franchise, whilst continuing to avoid sub-prime lending.

Customers are increasingly choosing to buy via direct channels and continued investment in our direct channel capabilities has supported good levels of business growth. In the first half of 2004, some 500,000 product sales were achieved through the internet channel, an increase of 27 per cent compared with the first half of 2003, and 160 million transactions were processed through internet banking, an increase of 28 per cent on the first half of 2003. Sales through direct channels represented 49 per cent of total sales in the first half of 2004.

We have continued to grow the credit card franchise, in a highly competitive environment, through the use of multiple brands with flexible offers for targeted segments, whilst continuing to rationalise back office operations to improve efficiency and levels of customer service and satisfaction.

The Group's 'Plus' range of interest-bearing current accounts continues to support the retention of high quality customers within the retail banking franchise, as well as enabling the Group to attract new-to-brand customers through a competitively priced offer. Quality customer current account recruitment increased by 13 per cent, compared with the first half of 2003, whilst quality current account attrition was 12 per cent lower reflecting the improvements which have been made in levels of service and customer satisfaction, together with the Group's improved range of personalised product offers. Lloyds TSB has maintained its clear market leadership in the added value current account market, with over 4 million customers.

UK Retail Banking (continued)

The popularity of the Premier Banking products for the mass affluent segment continues to grow, with some 41,000 customers selecting this offer since its launch in March 2003. This is complemented by a private banking service for high net worth customers.

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
Mortgages	**£m**	£m	£m
Gross new mortgage lending	**£13.6bn**	£12.0bn	£12.2bn
Market share of gross new mortgage lending	**9.4%**	9.7%	7.9%
Net new mortgage lending	**£5.5bn**	£4.8bn	£3.5bn
Market share of net new mortgage lending	**10.4%**	10.9%	6.1%
Mortgages outstanding (period-end)	**£76.3bn**	£67.3bn	£70.8bn
Market share of mortgages outstanding	**9.2%**	9.3%	9.1%

Gross new mortgage lending increased by 13 per cent to a record £13.6 billion, compared with £12.0 billion in the first half of 2003. Net new lending increased to £5.5 billion resulting in an estimated market share of net new lending of 10.4 per cent. Over the last 12 months, mortgage balances outstanding increased by 13 per cent to £76.3 billion.

C&G continues to operate a successful multi-channel distribution strategy through the Lloyds TSB branch network, C&G branches, intermediaries, telephone and the internet. The Group continues to be one of the most efficient mortgage providers in the UK and C&G total costs as a percentage of mortgage assets were 0.5 per cent in the first half of 2004.

C&G has a wide range of mainstream mortgage offers, enhanced by the launch of ‘First Time Buyer’ and ‘Offset’ products during the first half of 2004. C&G focuses on prime lending market segments, and has continued its policy of not exceeding a 95 per cent loan-to-value ratio on new lending. The average indexed loan-to-value ratio on the C&G mortgage portfolio was 42 per cent (30 June 2003: 44 per cent), and the average loan-to-value ratio for C&G mortgage business written during the first half of 2004 was 65 per cent (2003 first half: 65 per cent). At 30 June 2004, 88.6 per cent of C&G mortgage balances had an indexed loan-to-value ratio of less than 80 per cent and only 0.1 per cent of balances had a loan-to-value ratio in excess of 95 per cent.

Asset quality remains strong. A slight improvement in arrears and the beneficial effect of house price increases have meant that bad debt provisions remained at low levels. New provisions were more than offset by releases and recoveries resulting in a £12 million net provisions release for the half-year, compared with a net release of £5 million in the first half of 2003.

UK Retail Banking (continued)

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
Provisions for bad and doubtful debts by product	**£m**	£m	£m
Personal loans/overdrafts	**236**	218	212
Credit cards	**120**	85	97
Mortgages	**(12)**	(5)	(13)
	344	298	296
Charge as a percentage of average lending*	**%**	%	%
Personal loans/overdrafts	**4.34**	4.44	4.08
Credit cards	**3.51**	3.34	3.08
Mortgages	**(0.03)**	(0.02)	(0.04)
*annualised			

Bad debt provisions increased by £46 million, or 15 per cent, to £344 million. £21 million of this increase reflected the acquisition in the second half of 2003 of the Goldfish credit card and personal lending portfolios and the residual increase largely reflected volume related asset growth in personal loan and credit card lending. The provisions charge as a percentage of average lending for personal loans and overdrafts fell to 4.34 per cent, from 4.44 per cent in the first half of 2003, while the charge in the credit card portfolio increased to 3.51 per cent, from 3.34 per cent in the first half of 2003. In the mortgages business, there was a net provision release of £12 million. Overall, the provisions charge as a percentage of average lending was 0.76 per cent, compared to 0.75 per cent in the first half of 2003.

During the first half of 2004 there has been an increase in the level of complaints relating to sales and performance of certain endowment based savings products. The Group maintains provisions for customer redress in respect of these past product sales and, at 30 June 2004, these provisions had not been fully utilised. The Group will continue to review the adequacy of these provisions.

Insurance and Investments

(the life, pensions and unit trust businesses of Scottish Widows and Abbey Life; general insurance underwriting and broking; and Scottish Widows Investment Partnership)

	Half-year to 30 June		Half-year to 31 December
	2004	2003†	2003†
	£m	£m	£m
Life, pensions and unit trusts			
Scottish Widows	**256**	226	192
Abbey Life	**38**	41	52
Provisions for customer redress	**-**	(100)	-
	294	167	244
General insurance	**82**	80	73
Operating profit from Insurance	**376**	247	317
Scottish Widows Investment Partnership	**2**	(2)	3
Profit before tax*	**378**	245	320
Profit before tax, before provisions for customer redress*	**378**	345	320

***excluding changes in economic assumptions and investment variance**

†restated (page 38, note 1)

Profit before tax from Insurance and Investments, excluding changes in economic assumptions and investment variance, increased by £133 million, or 54 per cent, to £378 million, from £245 million in the first half of 2003. Profit before tax from our life, pensions and unit trust businesses increased by £127 million, or 76 per cent, to £294 million.

The market for medium and long-term investments has continued to be adversely affected by uncertainties in global stock markets although, based on Scottish Widows' sales performance, there have been signs in the second quarter of 2004 of some confidence returning to the long-term savings and investment markets. Our strategy of increasing the Group's focus on more profitable and capital efficient business has resulted in an increase in market share in protection and specialist pension products whilst reducing emphasis on some lower return products such as individual stakeholder pensions. As a result, the life and pensions new business contribution rose by 7 per cent and the new business margin increased to 24.3 per cent from 23.4 per cent in the first half of 2003.

Overall, weighted sales in the first half of 2004 were £354.6 million compared to £366.6 million in the first half of last year, a reduction of 3 per cent. In life and pensions, weighted sales increased by 3 per cent to £305.0 million whilst unit trust sales decreased by 31 per cent to £49.6 million. In the second quarter of 2004, however, the Group has delivered a significant increase of 24 per cent in weighted sales to £196.2 million compared to £158.4 million in the first quarter of 2004. This reflected growth of 29 per cent via Independent Financial Advisors, an increase of 55 per cent through direct channels, and 9 per cent growth in sales through the branch network.

Insurance and Investments (continued)

The Group's estimated share of the life and pensions market in the first quarter of 2004 increased to 6.7 per cent, from 6.4 per cent in the first quarter of 2003. However, as a result of lower sales of unit trusts and equity-based ISAs, the Group's estimated share of the life, pensions and unit trusts market in the first quarter of 2004 fell to 4.9 per cent, from 5.4 per cent in the first quarter of 2003. Scottish Widows remains, however, one of the leading unit trust and equity-based ISA providers in the UK.

In the branch network, weighted sales were 12 per cent lower as a result of a significant reduction in the sales of single premium unit trusts. However, our market share of life and pensions in the branch network and direct distribution channels grew to 8.7 per cent in the first quarter of 2004, compared to 7.1 per cent in the first quarter of 2003.

Profit before tax from general insurance, excluding investment variance, increased by £2 million, or 3 per cent, to £82 million as continued revenue growth from home insurance more than offset lower levels of creditor insurance. Sales from direct channels continued to grow, increasing by 9 per cent, compared to the first half of 2003.

Pre-tax profit from Scottish Widows Investment Partnership (SWIP) increased to £2 million, reflecting more buoyant market conditions and increased revenues from new mandates. SWIP achieved a significant increase in gross new external mandates which totalled £1.5 billion during the first half of 2004, largely reflecting an increase in the number of institutional client mandates. SWIP is the tenth largest fund manager in the United Kingdom with £77 billion under management. Fixed income and property investment performance continues to be strong, and over the three year period to 30 June 2004, 68 per cent of retail assets under management achieved above median performance. SWIP is currently in the process of introducing a new fund range as a key component of Lloyds TSB's bancassurance strategy.

Insurance and Investments (continued)

	Half-year to 30 June 2004 £m	Half-year to 30 June 2003 £m	Half-year to 31 December 2003 £m
Total new business premium income			
Regular premiums:			
Life - mortgage related	**20.7**	21.7	22.2
- non-mortgage related	**19.0**	28.0	23.4
Pensions	**125.0**	111.1	125.6
Health	**2.3**	3.2	2.7
Total regular premiums	**167.0**	164.0	173.9
Single premiums:			
Life	**574.3**	438.3	408.4
Annuities	**234.5**	271.4	241.1
Pensions	**571.0**	597.0	682.1
Total single premiums	**1,379.8**	1,306.7	1,331.6
External unit trust sales:			
Regular payments	**18.1**	22.0	19.0
Single amounts	**315.6**	499.5	407.8
Total external unit trust sales	**333.7**	521.5	426.8
Weighted sales (regular + $^{1}/_{10}$ single)			
Life and pensions	**305.0**	294.7	307.0
Unit trusts	**49.6**	71.9	59.8
Life, pensions and unit trusts	**354.6**	366.6	366.8
Weighted sales by distribution channel			
Branch network	**122.1**	139.3	139.5
Independent financial advisors	**198.3**	197.5	194.1
Direct	**33.9**	28.9	32.7
Other, including International	**0.3**	0.9	0.5
Life, pensions and unit trusts	**354.6**	366.6	366.8
Group funds under management	**£bn**	£bn	£bn
Scottish Widows Investment Partnership	**77**	73	77
UK Wealth Management	**11**	10	11
International	**14**	16	15
	102	99	103

Insurance and Investments (continued)

Life, pensions and unit trusts

	Half-year to 30 June		Half-year to 31 December
	2004	2003†	2003†
	£m	£m	£m
New business income	**195**	173	223
Life and pensions distribution costs	**(121)**	(104)	(137)
New business contribution	**74**	69	86
Existing business			
- expected return	**132**	133	150
- experience variances	**(13)**	-	(16)
- assumption changes and other items	**6**	(21)	(54)
- provisions for customer redress	**-**	(100)	-
	125	12	80
Development costs	**(4)**	(3)	(10)
Investment earnings	**80**	77	76
	275	155	232
Unit trusts	**32**	32	30
Unit trust distribution costs	**(13)**	(20)	(18)
	19	12	12
Profit before tax*	**294**	167	244
Profit before tax, excluding provisions for customer redress*	**294**	267	244
New business margin (life and pensions)	**24.3%**	23.4%	28.0%

*excluding changes in economic assumptions and investment variance
†restated (page 38, note 1)

New business income increased by 13 per cent as a result of a 3 per cent increase in weighted sales from life and pensions products and an increase in the life and pensions new business margin, as a result of an improved performance in the more profitable life products. The new business contribution increased by 7 per cent to £74 million. The life and pensions new business margin, defined as new business contribution divided by weighted sales, increased to 24.3 per cent, from 23.4 per cent in the first half of 2003. The improvement reflects our strategy to focus on more profitable and capital efficient business, improving the Group's product mix, particularly in moving to higher margin protection and specialist pension products.

Profit before tax from existing business, excluding provisions for customer redress, increased by £13 million, or 12 per cent, to £125 million. The expected return from existing business, which largely reflects the unwinding of the long-term discount rate applied to the expected cash flows from the Group's portfolio of in-force business, was broadly unchanged at £132 million. During the first half of 2004, there was a reduction of £7 million from changes in actuarial assumptions and experience variances, compared to a reduction of £21 million in the first half of 2003.

Insurance and Investments (continued)

General insurance

	Half-year to 30 June **2004** **£m**	Half-year to 30 June 2003† £m	Half-year to 31 December 2003† £m
Premium income from underwriting			
Creditor	**55**	52	52
Home	**218**	198	212
Health	**16**	22	21
Reinsurance premiums	**(13)**	(11)	(11)
	276	261	274
Commissions from insurance broking			
Creditor	**166**	190	161
Home	**12**	14	16
Health	**9**	8	8
Other	**57**	77	130
	244	289	315
Distribution commissions to UK Retail Banking	**272**	298	320
Profit before tax*	**82**	80	73

*excluding investment variance
†restated (page 38, note 1)

Profit before tax, excluding investment variance, from our general insurance operations increased by £2 million, or 3 per cent, to £82 million.

Premium income from underwriting increased by £15 million, or 6 per cent, largely as a result of higher home insurance income which increased by 10 per cent, largely as a result of an improvement in product margins and levels of business retention. Insurance broking commission income decreased by £45 million, as a result of a £24 million fall in income from creditor insurance and a £20 million reduction in other commissions, largely reflecting lower retrospective commissions. Telephone and internet sales continue to grow with a 9 per cent increase in gross written premiums from new policies sold through direct channels in the first half of 2004. Gross written premiums for new policies sold via the internet increased by 44 per cent.

As a result of a lower level of branch network sales, distribution commissions to UK Retail Banking reduced by £26 million to £272 million. Claims were £13 million higher at £121 million, compared to the first half of 2003, reflecting higher values of underwritten business and higher weather related claims. The overall claims ratio remained low at 42 per cent but was slightly higher than in the first half of last year (40 per cent).

Wholesale and International Banking
(banking, treasury, structured finance, venture capital, acquisition finance, large value lease finance, share registration and stockbroking, long-term agricultural finance and other related services for major UK and multinational companies, financial institutions, and small and medium-sized UK businesses; Lloyds TSB Asset Finance; and banking and financial services overseas in The Americas and Europe and Offshore Banking worldwide).

	Half-year to 30 June		Half-year to 31 December
	2004	2003†	2003†
	£m	£m	£m
Net interest income	**967**	898	977
Other income	**785**	750	811
Total income	**1,752**	1,648	1,788
Operating expenses	**1,015**	991	1,057
Trading surplus	**737**	657	731
Provisions for bad and doubtful debts	**98**	145	161
Amounts written off fixed asset investments	**23**	24	20
Profit before tax* - continuing operations	**616**	488	550
(Loss) profit on sale of businesses	**(16)**	(15)	880
Trading results of discontinued operations	**-**	192	126
Profit before tax	**600**	665	1,556
Cost:income ratio*	**57.9%**	60.1%	59.1%
Total assets (period-end) - continuing operations	**£109.4bn**	£105.4bn	£101.3bn
Total risk-weighted assets (period-end) - continuing operations	**£64.5bn**	£63.6bn	£62.8bn

*excluding (loss) profit on sale of businesses and trading results of discontinued operations
†restated (page 38, note 1)

Wholesale and International Banking pre-tax profit, excluding loss on sale of businesses and trading results of discontinued operations, increased by £128 million, or 26 per cent, to £616 million, from £488 million in the first half of 2003. This resulted from a strong performance from most major businesses, and a significantly enhanced focus on leveraging underexploited opportunities in our corporate franchises. Income growth of 6 per cent exceeded cost growth of 2 per cent, leading to an improvement in the cost:income ratio to 57.9 per cent. Our focus on capital efficiency has led to an increase in the post-tax return on average risk-weighted assets to 1.44 per cent compared with 1.11 per cent in the first half of 2003. In Wholesale, there was strong profit growth particularly in corporate banking, business banking and asset finance, and a reduction in provisions for bad and doubtful debts.

Wholesale and International Banking (continued)

Excluding the trading results of discontinued operations net interest income increased by £69 million, or 8 per cent, reflecting higher income from improved margins in corporate banking, business banking and the asset finance businesses, and strong growth in customer lending in asset finance. Other income increased by £35 million, largely as a result of a £27 million increase in the gains on realisation of venture capital investments by Lloyds TSB Development Capital.

The charge for provisions for bad and doubtful debts decreased by £47 million to £98 million. The charge in Wholesale fell by £11 million to £134 million, as a result of a decrease in provisions from the corporate lending portfolio. In International Banking there was a credit of £36 million mainly reflecting a £30 million release from the general provision against the Group's exposures in Argentina.

In Corporate Banking, profit before tax grew by 30 per cent from £164 million in the first half of 2003 to £214 million, reflecting an increase in the contribution from both relationship and transactional business driven by a combination of higher income, controlled costs, and a £20 million reduction in provisions.

We continue to deepen existing customer relationships, with increased cross-selling income and referral activity, supported by the co-location of corporate relationship managers and Financial Markets sales teams in regional centres. During the first half of 2004, Lloyds TSB was the number one lead arranger of syndicated loans for investment-grade companies in the UK by number of deals, we have grown market share in acquisition finance, and we are seeing a strong pipeline of business across the structured finance product areas.

In Financial Markets pre-tax profits were flat at £68 million, as income growth was offset by higher levels of investment spend, including a significant expansion of the regional salesforce, to support the delivery of our strategy to increase sales to corporate customers.

Profit before tax in Business Banking grew by £10 million, or 19 per cent to £62 million, reflecting good income growth and tight control of costs. Customer deposits rose by 7 per cent to £10.8 billion and customer lending increased by 2 per cent to £5.7 billion. Business Banking continued to grow its customer franchise and the Group's share of the start-up market was 20 per cent in the first half of 2004.

Pre-tax profit in Lloyds TSB Asset Finance increased by 46 per cent to £99 million, compared with £68 million in 2003, reflecting the continued profitable development of the motor and leisure, and personal and retail finance businesses. The motor and leisure business continues to be the largest independent lender in the UK motor and leisure point of sale market, and has performed strongly in a growing market, increasing market share to 20 per cent of the Finance & Leasing Association total car market. Personal and retail finance has also achieved increased market share. New business levels in these two divisions grew by 12 per cent and 21 per cent respectively in the first half of 2004.

Wholesale and International Banking (continued)

The new business environment for asset based lending provided by Lloyds TSB Commercial Finance remains more challenging, though good progress has been made in growing our existing business and corporate customer franchises, with an increased level of new business introductions.

In International Banking, profit before tax, excluding the loss on sale of businesses and trading results of discontinued operations, increased by £46 million, or 77 per cent, to £106 million, partly as a result of a £30 million general provision release in Argentina, but also reflecting lower costs in Argentina and Paraguay and higher income in international private banking. Pre-tax profits in Offshore Banking increased by £3 million to £59 million, compared with £56 million in the first half of 2003.

The Group completed the disposal of its businesses in Panama and Guatemala on 30 April 2004 and 4 June 2004 respectively resulting in a net loss on disposal of £3 million. The sale of the Group's business in Honduras, which remains subject to approval by the relevant regulatory authorities, is expected to be completed during the second half of 2004. In July 2004, the Group announced the sale of its businesses in Argentina and Colombia, subject to approval by the relevant regulatory authorities. As a result, a £13 million goodwill write-off has been recognised in the profit and loss account for the first half of 2004.

Central group items

(earnings on capital and the emerging markets debt investment portfolio, central costs and other unallocated items)

	Half-year to 30 June		Half-year to 31 December
	2004	2003†	2003†
	£m	£m	£m
Accrual for payment to Lloyds TSB Foundations	**(16)**	(16)	(15)
Other finance income	**19**	17	17
Earnings on capital and the emerging markets debt investment portfolio	**(165)**	140	(190)
Central costs and other unallocated items	**(5)**	4	31
	(167)	145	(157)

†restated (page 38, note 1)

The four independent Lloyds TSB Foundations support registered charities throughout the UK that enable people, particularly disabled and disadvantaged, to play a fuller role in society. The Foundations receive 1 per cent of the Group's pre-tax profit, averaged over three years, instead of the dividend on their shareholdings, making them in aggregate one of the largest independent grant giving bodies in the UK. In the first half of 2004, the Group accrued £16 million for payment to the Lloyds TSB Foundations.

Other finance income represents income from the expected return on the Group's pension fund assets less the charge for unwinding the discount on the pension fund liabilities.

Earnings on capital and the emerging markets debt investment portfolio reflect earnings on capital held at the Group centre, less the funding cost of recent acquisitions, and profits from the Group's investment portfolio of emerging markets debt securities. During the first half of 2003 improved secondary bond market conditions allowed the Group to sell its remaining portfolio of emerging markets debt securities. Profits on bond sales, and certain closed foreign exchange positions, in the first half of 2003 totalled £295 million.

INCOME

Group net interest income

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
Continuing operations			
Net interest income	**2,438**	2,285	2,459
Average balances			
Short-term liquid assets	**254**	2,598	2,317
Loans and advances	**155,224**	140,598	145,042
Debt securities	**14,360**	14,714	13,519
Total interest-earning assets	**169,838**	157,910	160,878
Net interest margin (%)	**2.89**	2.92	3.03
Statutory			
Net interest income	**2,438**	2,571	2,684
Total interest-earning assets	**169,838**	172,082	173,697
Financed by:			
Interest-bearing liabilities	**162,559**	164,454	166,753
Interest-free liabilities	**7,279**	7,628	6,944
Average rates	**%**	%	%
Gross yield on interest-earning assets	**5.66**	5.87	5.87
Cost of interest-bearing liabilities	**2.90**	2.99	2.92
Interest spread	**2.76**	2.88	2.95
Contribution of interest-free liabilities	**0.13**	0.13	0.12
Net interest margin	**2.89**	3.01	3.07

Group net interest income decreased by £133 million, or 5 per cent, to £2,438 million, largely as a result of the sale of a number of overseas businesses in the second half of 2003.

On a continuing operations basis, net interest income increased by £153 million, or 7 per cent, and average interest-earning assets increased by 8 per cent to £170 billion. Within UK Retail Banking, continued strong growth led to increases of £2.8 billion in average personal lending and credit card balances and £8.0 billion in average mortgage balances. Within Wholesale and International Banking, average interest-earning assets increased by £763 million, largely reflecting growth in asset finance balances.

The Group net interest margin from continuing operations decreased by 3 basis points, in part caused by lower margins earned in the Group's credit card, personal lending and mortgages portfolios as a result of competitive pressures, as well as mix and funding effects. This was partly offset however by higher corporate banking margins and a positive mix effect from strong growth in the asset finance businesses.

Other income

	Half-year to 30 June 2004 £m	Half-year to 30 June 2003 £m	Half-year to 31 December 2003 £m
Fees and commissions receivable:			
UK current account fees	**312**	316	307
Other UK fees and commissions	**620**	569	604
Insurance broking	**244**	289	315
Card services	**237**	202	237
International fees and commissions	**71**	74	74
	1,484	1,450	1,537
Fees and commissions payable	**(372)**	(326)	(362)
Dealing profits (before expenses):			
Foreign exchange income	**85**	140	83
Securities and other gains	**43**	255	34
	128	395	117
Income from long-term assurance business	**296**	135	211
General insurance premium income	**276**	261	274
Other operating income	**326**	311	371
Total other income - continuing operations*	**2,138**	2,226	2,148
Investment variance	**(72)**	42	83
Changes in economic assumptions	**7**	(8)	(14)
Discontinued operations	**-**	89	53
Total other income	**2,073**	2,349	2,270

*excluding investment variance and changes in economic assumptions

Other income from continuing operations, excluding investment variance and changes in economic assumptions, decreased by £88 million, or 4 per cent, to £2,138 million as a result of the absence of income totalling £301 million from the sale, in the first half of 2003, of the Group's portfolio of emerging markets debt bonds, and certain closed foreign exchange positions partly offset by the absence of a £100 million customer redress provision charged against income from long-term assurance business. Excluding these items other income increased by 6 per cent.

From the Group's continuing operations, fees and commissions receivable increased by £34 million, or 2 per cent, to £1,484 million, largely reflecting good growth in other UK fees and commissions and higher income from credit and debit card services, which more than offset a reduction in insurance broking commissions. Other UK fees and commissions increased by £51 million, or 9 per cent, to £620 million. There was an increase of £9 million in mortgage related fees, reflecting the growth in new mortgage lending during the first half of the year, and an increase in fees from large corporate and factoring activity, reflecting increased transaction volumes.

Other income (continued)

Insurance broking commission income decreased by £45 million, partly as a result of a £24 million fall in income from creditor insurance, reflecting a reduction in sales through the branch network. Income from credit and debit card services increased by £35 million mainly as a result of a growth in interchange income, partly reflecting the acquisition of the Goldfish credit card portfolio in September 2003.

Fees and commissions payable increased by £46 million as a result of a £27 million increase in commissions paid to motor dealers by the asset finance operation, reflecting the growth in the levels of new business, and higher costs relating to legal expenses and valuation fee incentives supporting the strong mortgage growth. Fees payable in respect of the credit and debit card business also increased, mainly reflecting volume growth and the acquisition of Goldfish.

Dealing profits decreased by £267 million compared with the first half of 2003 as a result of the absence of gains on the sale of the emerging markets debt portfolio and certain closed foreign exchange positions. Income from long-term assurance business increased by £161 million, largely as a result of the absence of a customer redress provision which reduced income from long-term assurance business by £100 million in the first half of 2003.

Premium income from general insurance underwriting increased by £15 million, or 6 per cent, to £276 million, compared to £261 million in the first half of 2003. This was largely as a result of growth in premiums from home insurance products, reflecting successful cross-selling to the Group's mortgage customers and the continued strength of the UK housing market, as well as an improvement in product margins and levels of business retention.

OPERATING EXPENSES

Operating expenses

	Half-year to 30 June **2004** **£m**	Half-year to 30 June 2003 £m	Half-year to 31 December 2003 £m
Administrative expenses:			
Staff:			
Salaries	**877**	832	843
National insurance	**67**	69	68
Pensions	**165**	156	186
Restructuring	**5**	10	45
Other staff costs	**118**	107	115
	1,232	1,174	1,257
Premises and equipment:			
Rent and rates	**138**	137	134
Hire of equipment	**9**	10	7
Repairs and maintenance	**64**	61	62
Other	**58**	58	56
	269	266	259
Other expenses:			
Communications and external data processing	**207**	194	217
Advertising and promotion	**87**	81	79
Professional fees	**61**	49	69
Provisions for customer redress	**-**	200	-
Other	**196**	191	193
	551	715	558
Administrative expenses	**2,052**	2,155	2,074
Depreciation	**289**	311	322
Amortisation of goodwill	**22**	18	21
Total operating expenses - continuing operations	**2,363**	2,484	2,417
Discontinued operations	**-**	143	129
Total operating expenses	**2,363**	2,627	2,546
Cost:income ratio	**52.2%**	53.2%	51.2%
Cost:income ratio*	**51.4%**	52.7%	52.3%

*continuing operations, excluding investment variance, changes in economic assumptions, customer redress provisions and sale of EMD bonds/certain closed foreign exchange positions in 2003

Operating expenses (continued)

Total operating expenses decreased by £264 million, or 10 per cent, to £2,363 million compared to £2,627 million in the first half of 2003, reflecting a reduction of £143 million as a result of the disposal of a number of overseas businesses during 2003, and the absence of provisions for customer redress which in the first half of 2003 totalled £200 million. On a continuing operations basis, and excluding the customer redress provisions, operating expenses increased by £79 million, or 3 per cent, to £2,363 million. Staff costs were £58 million higher at £1,232 million largely reflecting higher salary costs. Professional fees increased by £12 million, to £61 million, due to greater use of external consultants on a number of major projects. Depreciation decreased by £22 million, largely as a result of a decrease of £26 million in operating lease depreciation. Goodwill amortisation was £4 million higher.

The cost:income ratio was 52.2 per cent, compared to 53.2 per cent in the first half of 2003. On a continuing operations basis, excluding investment variance, changes in economic assumptions, customer redress provisions and the sale of emerging markets debt bonds and certain closed foreign exchange positions, the cost:income ratio improved to 51.4 per cent, compared to 52.7 per cent in the first half of last year.

The Group has embarked on a programme of offshoring a number of its processing and back office operations. Our pilot operation in Bangalore has been running for over a year and has demonstrated that it is possible to provide customer service levels comparable to the UK. As a result, we have expanded the work we carry out in India and in May 2004 our telephony operations went live in Mumbai.

Number of employees (full-time equivalent)

Staff numbers increased by 212 to 71,821 during the first half of the year.

Within UK Retail Banking staff numbers increased by 269, reflecting an increase in customer facing staff partly offset by a reduction in regional and head office staff. In Insurance and Investments there was a decrease of 184 staff, reflecting operational efficiencies within Scottish Widows and the general insurance business. In Wholesale and International Banking staff numbers increased by 55, largely to support the growth in new business volumes.

	30 June 2004	31 December 2003
UK Retail Banking	**44,576**	44,307
Insurance and Investments	**5,610**	5,794
Wholesale and International Banking	**19,809**	19,754
Other	**1,826**	1,754
Total number of employees (full-time equivalent)	**71,821**	71,609

CREDIT QUALITY

Charge for bad and doubtful debts

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
UK Retail Banking	**344**	298	296
Wholesale and International Banking - continuing operations	**98**	145	161
Central group items	**-**	(13)	-
Total charge - continuing operations	**442**	430	457
Discontinued operations	**-**	40	23
Total charge	**442**	470	480
Specific provisions	**477**	466	480
General provisions	**(35)**	4	-
Total charge	**442**	470	480
Charge as % of average lending*:	**%**	%	%
UK Retail Banking	**0.76**	0.75	0.69
Wholesale and International Banking - continuing operations	**0.39**	0.59	0.63
Total charge - continuing operations	**0.63**	0.66	0.67
*annualised			

The total charge for bad and doubtful debts decreased by £28 million, or 6 per cent, to £442 million. From continuing operations, the provisions charge increased by £12 million, or 3 per cent, to £442 million. The charge within UK Retail Banking increased by £46 million largely as a result of the Goldfish acquisition and volume related growth in the personal loan and credit card portfolios. There was a net release of £12 million from the provisions held against the mortgages portfolio, compared to a net release of £5 million in the first half of 2003, mainly reflecting an increase in the value of the property held as security.

In Wholesale and International Banking the provisions charge fell by £47 million to £98 million. The charge within Wholesale fell by £11 million as the level of new provisions required against corporate customers reduced. Within International Banking there was a credit of £36 million largely as a result of a release of £30 million from the general provision required against the Group's exposures in Argentina.

The Group's charge for bad and doubtful debts, on a continuing operations basis, as a percentage of average lending decreased to 0.63 per cent, compared to 0.66 per cent in the first half of 2003.

Movements in provisions for bad and doubtful debts

	Half-year to 30 June 2004		Half-year to 30 June 2003		Half-year to 31 December 2003	
	Specific £m	**General £m**	Specific £m	General £m	Specific £m	General £m
At beginning of period	**1,313**	**382**	1,334	433	1,385	437
Exchange and other adjustments	**(4)**	**-**	13	-	(14)	-
Transfer from general to specific provisions	**3**	**(3)**	-	-	50	(50)
Adjustments on acquisitions and disposals	**(2)**	**-**	(1)	-	(48)	(5)
Advances written off	**(486)**	**-**	(514)	-	(631)	-
Recoveries of advances written off in previous years	**77**	**-**	87	-	91	-
Charge to profit and loss account:						
New and additional provisions	**745**	**5**	769	4	783	5
Releases and recoveries	**(268)**	**(40)**	(303)	-	(303)	(5)
	477	**(35)**	466	4	480	-
At end of period	**1,378**	**344**	1,385	437	1,313	382
	1,722		1,822		1,695	
Closing provisions as % of lending (excluding unapplied interest)						
Specific:						
Domestic	**1,238**	**(0.9%)**	1,081	(0.9%)	1,132	(0.9%)
International	**140**	**(2.3%)**	304	(1.6%)	181	(2.8%)
	1,378	**(1.0%)**	1,385	(0.9%)	1,313	(0.9%)
General	**344**	**(0.2%)**	437	(0.3%)	382	(0.3%)
Total	**1,722**	**(1.2%)**	1,822	(1.2%)	1,695	(1.2%)

At the end of June 2004 provisions for bad and doubtful debts totalled £1,722 million. This represented 1.2 per cent of total lending (31 December 2003: 1.2 per cent). Non-performing lending increased to £1,225 million from £1,218 million in December 2003, largely reflecting general portfolio growth in the consumer lending portfolios. Non-performing lending represented 0.8 per cent of total lending, down from 0.9 per cent at 31 December 2003. At the end of the half-year, specific provisions represented over 100 per cent of non-performing loans (31 December 2003: over 100 per cent).

CAPITAL RATIOS

Risk asset ratios

	30 June 2004 £m	31 December 2003 £m
Capital		
Tier 1	**11,645**	11,223
Tier 2	**8,481**	8,935
	20,126	20,158
Supervisory deductions	**(7,115)**	(6,898)
Total capital	**13,011**	13,260
Risk-weighted assets	**£bn**	£bn
UK Retail Banking	**57.6**	54.1
Insurance and Investments	**0.2**	0.2
Wholesale and International Banking	**64.5**	62.8
Central group items	**0.5**	0.6
Total risk-weighted assets	**122.8**	117.7
Risk asset ratios		
Total capital	**10.6%**	11.3%
Tier 1	**9.5%**	9.5%
	Half-year to 30 June 2004	Half-year to 30 June 2003
Post-tax return on average risk-weighted assets	**1.84%**	1.91%
Post-tax return on average risk-weighted assets **-** continuing operations*	**1.95%**	1.86%

*excluding investment variance, changes in economic assumptions and profit (loss) on sale of businesses

At the end of June 2004 the risk asset ratios were 10.6 per cent for total capital and 9.5 per cent for Tier 1 capital. During the first half of 2004, total capital for regulatory purposes decreased by £249 million to £13,011 million. Tier 1 capital increased by £422 million, mainly from retained profits, whilst Tier 2 capital reduced by £454 million, as a result of the repayment of Tier 2 capital instruments upon maturity. Supervisory deductions increased by £217 million, largely as a result of an increase in the Group's embedded value to £6,641 million, from £6,481 million in December 2003.

Risk-weighted assets increased by 4 per cent to £122.8 billion, reflecting strong growth in consumer lending and mortgages in the UK and growth in lending within the asset finance businesses. The post-tax return on average risk-weighted assets, on a continuing operations basis, excluding investment variance, changes in economic assumptions and profit (loss) on sale of businesses, increased to 1.95 per cent, from 1.86 per cent the first half of 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (unaudited)

	Half-year to 30 June 2004 £m	Half-year to 30 June Continuing operations 2003 £m	Half-year to 30 June Discontinued operations 2003 £m	Total 2003 £m
Interest receivable:				
Interest receivable and similar income arising from debt securities	**189**	208	37	245
Other interest receivable and similar income	**4,595**	4,112	652	4,764
Interest payable	**2,346**	2,035	403	2,438
Net interest income	**2,438**	2,285	286	2,571
Other finance income	**19**	17	-	17
Other income				
Fees and commissions receivable	**1,484**	1,450	59	1,509
Fees and commissions payable	**(372)**	(326)	(17)	(343)
Dealing profits (before expenses)	**123**	397	30	427
Income from long-term assurance business	**236**	167	8	175
General insurance premium income	**276**	261	-	261
Other operating income	**326**	311	9	320
	2,073	2,260	89	2,349
Total income	**4,530**	4,562	375	4,937
Operating expenses				
Administrative expenses	**2,052**	2,155	130	2,285
Depreciation	**289**	311	7	318
Amortisation of goodwill	**22**	18	6	24
Depreciation and amortisation	**311**	329	13	342
Total operating expenses	**2,363**	2,484	143	2,627
Trading surplus	**2,167**	2,078	232	2,310
General insurance claims	**121**	108	-	108
Provisions for bad and doubtful debts				
Specific	**477**	426	40	466
General	**(35)**	4	-	4
	442	430	40	470
Amounts written off fixed asset investments	**23**	24	-	24
Operating profit	**1,581**	1,516	192	1,708
Share of results of joint ventures	**(1)**	(11)	-	(11)
Loss on sale of businesses	**(16)**	-	(15)	(15)
Profit on ordinary activities before tax	**1,564**	1,505	177	1,682
Tax on profit on ordinary activities	**449**	428	63	491
Profit on ordinary activities after tax	**1,115**	1,077	114	1,191
Minority interests - equity	**10**	10	-	10
- non-equity	**22**	23	-	23
Profit for the period attributable to shareholders	**1,083**	1,044	114	1,158
Dividends	**599**			597
Profit for the period	**484**			561
Earnings per share	**19.4p**			20.7p
Diluted earnings per share	**19.3p**			20.6p

CONSOLIDATED BALANCE SHEET

	30 June 2004 (unaudited) £m	30 June 2003 (unaudited) £m	31 December 2003 (audited) £m
Assets			
Cash and balances at central banks	**892**	857	1,195
Items in course of collection from banks	**1,879**	2,433	1,447
Treasury bills and other eligible bills	**142**	3,577	539
Loans and advances to banks	**26,891**	18,306	15,547
Loans and advances to customers	**141,508**	141,990	135,251
Debt securities	**26,421**	28,682	28,669
Equity shares	**351**	230	458
Interests in joint ventures	**53**	38	54
Intangible assets	**2,485**	2,615	2,513
Tangible fixed assets	**4,063**	3,974	3,918
Other assets	**2,983**	5,609	3,944
Prepayments and accrued income	**1,929**	2,127	1,918
Long-term assurance business attributable to the shareholder	**6,641**	6,347	6,481
	216,238	216,785	201,934
Long-term assurance assets attributable to policyholders	**50,623**	47,691	50,078
Total assets	**266,861**	264,476	252,012
Liabilities			
Deposits by banks	**37,575**	23,882	23,955
Customer accounts	**118,300**	121,433	116,496
Items in course of transmission to banks	**765**	981	626
Debt securities in issue	**27,355**	34,498	25,922
Other liabilities	**4,889**	8,422	7,007
Accruals and deferred income	**3,074**	3,458	3,206
Post-retirement benefit liability	**2,097**	2,168	2,139
Provisions for liabilities and charges:			
Deferred tax	**1,361**	1,269	1,376
Other provisions for liabilities and charges	**358**	532	402
Subordinated liabilities:			
Undated loan capital	**5,850**	6,063	5,959
Dated loan capital	**3,933**	4,733	4,495
Minority interests:			
Equity	**47**	47	44
Non-equity	**536**	696	683
	583	743	727
Called-up share capital	**1,419**	1,417	1,418
Share premium account	**1,144**	1,121	1,136
Merger reserve	**343**	343	343
Profit and loss account	**7,192**	5,722	6,727
Shareholders' funds (equity)	**10,098**	8,603	9,624
	216,238	216,785	201,934
Long-term assurance liabilities to policyholders	**50,623**	47,691	50,078
Total liabilities	**266,861**	264,476	252,012

OVERVIEW OF CONSOLIDATED BALANCE SHEET

Review of balance sheet at 30 June 2004, compared to 31 December 2003

Assets

Total assets increased by £14,849 million to £266,861 million, reflecting strong growth in loans and advances to banks and customers, partly offset by a reduction in debt securities.

Cash and balances at central banks reduced by £303 million, or 25 per cent, to £892 million as cash balances held at the year-end are usually higher, to cater for anticipated demand over the year-end holiday period. Loans and advances to banks increased by £11,344 million to £26,891 million, largely reflecting an increase in reverse repos, partly replacing treasury bills and debt securities held for liquidity purposes, but also in relation to the Group's increased funding requirements.

Loans and advances to customers increased by £6,257 million, or 5 per cent, to £141,508 million. This growth largely reflects strong growth in UK retail lending, particularly mortgages, credit cards and personal loans.

Debt securities decreased by £2,248 million, or 8 per cent, to £26,421 million, largely reflecting the increased use of reverse repos for liquidity purposes.

Intangible assets declined by £28 million to £2,485 million reflecting amortisation of £22 million and a charge of £10 million relating to the impairment of goodwill in Colombia. Tangible fixed assets increased by £145 million to £4,063 million reflecting net additions of £441 million, largely in relation to operating leases, offset by depreciation of £289 million.

Other assets decreased by £961 million to £2,983 million, largely as a result of a decrease of £917 million in mark-to-market balances in respect of external derivatives.

Long-term assurance business attributable to the shareholder increased by £160 million to £6,641 million reflecting the after tax profit in the Group's life assurance businesses.

Assets (continued)

	30 June **2004** **£m**	30 June 2003 £m	31 December 2003 £m
Loans and advances to customers			
Domestic:			
Agriculture, forestry and fishing	**2,075**	2,089	2,025
Manufacturing	**3,090**	3,572	3,211
Construction	**1,647**	1,634	1,497
Transport, distribution and hotels	**5,010**	4,915	4,741
Property companies	**4,808**	4,222	4,577
Financial, business and other services	**8,011**	8,351	9,652
Personal : mortgages	**76,316**	67,316	70,750
: other	**21,535**	17,798	20,139
Lease financing	**6,378**	6,940	6,470
Hire purchase	**4,829**	4,453	4,701
Other	**4,043**	3,499	3,351
Total domestic	**137,742**	124,789	131,114
International:			
Latin America	**425**	1,470	557
New Zealand	**-**	11,939	-
United States of America	**2,576**	3,018	2,681
Europe	**1,883**	2,053	1,981
Rest of the world	**611**	586	623
Total international	**5,495**	19,066	5,842
	143,237	143,855	136,956
Provisions for bad and doubtful debts*	**(1,707)**	(1,808)	(1,677)
Interest held in suspense*	**(22)**	(57)	(28)
Total loans and advances to customers	**141,508**	141,990	135,251

*figures exclude provisions and interest held in suspense relating to loans and advances to banks

Liabilities

Deposits by banks increased by £13,620 million to £37,575 million, largely reflecting increased repo funding to finance asset growth.

Customer deposits increased by £1,804 million to £118,300 million, as growth of £2,331 million in current account credit balances was partly offset by reductions in some offshore deposits, and following completion of the sale of the Group’s businesses in Panama and Guatemala.

Liabilities (continued)

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
Deposits - customer accounts			
Sterling:			
Non-interest bearing current accounts	**3,173**	2,420	3,115
Interest bearing current accounts	**29,539**	26,815	27,266
Savings and investment accounts	**56,106**	56,195	55,990
Other customer deposits	**17,133**	16,242	17,605
Total sterling	**105,951**	101,672	103,976
Currency	**12,349**	19,761	12,520
Total deposits - customer accounts	**118,300**	121,433	116,496

Debt securities in issue increased by £1,433 million to £27,355 million. Other liabilities decreased by £2,118 million to £4,889 million, as a result of a reduction of £1,510 million in mark-to-market balances in respect of external derivatives and a lower interim dividend accrual than that for the final dividend. Accruals and deferred income reduced by £132 million to £3,074 million as a result of lower interest payable.

The post-retirement benefit liability decreased by £42 million to £2,097 million. The after-tax impact of cash contributions and other finance income more than offset the regular pensions cost. Provisions for liabilities and charges fell by £59 million to £1,719 million, largely reflecting cash payments against the customer remediation provision.

Subordinated liabilities fell by £671 million to £9,783 million due to repayments of £500 million and exchange rate movements. Minority interests decreased by £144 million to £583 million, largely reflecting the termination of certain structured finance transactions.

Shareholders' funds were up £474 million to £10,098 million, principally due to retentions.

CONSOLIDATED CASH FLOW STATEMENT (unaudited)

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
Net cash inflow (outflow) from operating activities	**696**	4,670	(3,898)
Dividends received from associated undertakings	**-**	5	-
Returns on investments and servicing of finance:			
Dividends paid to equity minority interests	**(8)**	-	(14)
Payments made to non-equity minority interests	**(23)**	(40)	(41)
Interest paid on subordinated liabilities (loan capital)	**(298)**	(297)	(303)
Net cash outflow from returns on investments and servicing of finance	**(329)**	(337)	(358)
Taxation:			
UK corporation tax	**(344)**	(205)	(393)
Overseas tax	**(62)**	(119)	(67)
Total taxation	**(406)**	(324)	(460)
Capital expenditure and financial investment:			
Additions to fixed asset investments	**(6,113)**	(19,519)	(15,901)
Disposals of fixed asset investments	**6,161**	18,656	17,625
Additions to tangible fixed assets	**(637)**	(346)	(432)
Disposals of tangible fixed assets	**115**	154	133
Net cash (outflow) inflow from capital expenditure and financial investment	**(474)**	(1,055)	1,425
Acquisitions and disposals:			
Additions to interests in joint ventures	**-**	(6)	(6)
Acquisition of group undertakings and businesses	**(9)**	(1)	(1,105)
Disposal of group undertakings and businesses	**17**	-	2,382
Net cash inflow (outflow) from acquisitions and disposals	**8**	(7)	1,271
Equity dividends paid	**(1,314)**	(1,311)	(597)
Net cash (outflow) inflow before financing	**(1,819)**	1,641	(2,617)
Financing:			
Issue of subordinated liabilities (loan capital)	**-**	533	-
Cash proceeds from issue of ordinary share capital and sale of own shares held in respect of employee share schemes	**10**	26	6
Repayment of subordinated liabilities (loan capital)	**(500)**	(55)	(20)
Repayment of minority investment in subsidiaries	**(132)**	-	-
Capital element of finance lease rental payments	**-**	(1)	-
Net cash (outflow) inflow from financing	**(622)**	503	(14)
(Decrease) increase in cash	**(2,441)**	2,144	(2,631)

NOTES

1. Accounting policies and presentation

Accounting policies are unchanged from 2003.

The Group has not revised the valuation of its pension schemes to reflect the circumstances prevailing at 30 June 2004. In accordance with FRS 17 the valuations will be formally updated at the year-end.

2003 figures have been restated to reflect changes in the Group's segmental analysis following the introduction, in 2004, of the management of the Group's distribution channels as profit centres, and other changes in internal pricing arrangements. These changes have not resulted in any change to Group profit before tax.

2. Future accounting developments

FRED 34 'Life Assurance'

On 21 July 2004, the UK Accounting Standards Board ('ASB') issued an exposure draft of an accounting standard which will amend the basis of accounting for entities with a life assurance business. The exposure draft, which is in part a response to the concerns raised by the Penrose report into Equitable Life, proposes to change the way in which embedded value is calculated to exclude the effect of future investment margins and limit the value attributed to the contractual rights to future investment management fees to their fair value, as implied by a comparison with current fees charged by other market participants for similar services. It is also proposed that the liabilities of with-profits funds falling within the scope of the FSA's realistic capital regime should be incorporated into the balance sheet on this basis, including options and guarantees at their fair value, and a capital position statement provided setting out total available capital compared to regulatory requirements with a sensitivity analysis to changes in key variables.

The ASB has requested comments on the exposure draft by early October and changes may be made to the proposals once these have been considered; it is expected that the resulting accounting standard will be effective for the 2004 full year results and is likely to require the figures for the first half of the year and prior periods to be restated. The ASB's proposals are currently being reviewed to assess the potential implications for the Group's accounts, although this exercise is not yet complete.

2. Future accounting developments (continued)

International Accounting Standards ('IAS')

Work continues throughout the Group in preparation for the adoption of IAS with effect from 1 January 2005 and good progress is being made.

There remains some uncertainty since the European Commission has still not endorsed IAS 39, the Standard dealing with the recognition and measurement of financial instruments, following objections raised by a minority of member states. In the limited time remaining before implementation is due, it is not clear whether it will be possible to address all of these concerns leaving open the possibility of partial or non-endorsement.

In overall terms, we expect that the introduction of IAS will lead to increased volatility in the Group's profit and loss account, although this will be mitigated by changes being considered to our hedging processes. The appearance of our accounts will also change as we will be required to consolidate our life assurance businesses on a line-by-line basis instead of the one-line basis of consolidation currently adopted.

Discussions have been held with the FSA to obtain their initial views on the effects of IAS upon prudential regulation, and we believe that our capital position will remain satisfactory under the new regime.

3. Profit and loss account for the six months ended 31 December 2003

An analysis of the Group's consolidated profit and loss account by continuing operations and discontinued operations for the second half of 2003 is given below.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (unaudited)

	Half-year to 31 December		
	Continuing operations 2003 £m	Discontinued operations 2003 £m	Total 2003 £m
Interest receivable:			
Interest receivable and similar income arising from debt securities	181	26	207
Other interest receivable and similar income	4,372	561	4,933
Interest payable	2,094	362	2,456
Net interest income	2,459	225	2,684
Other finance income	17	-	17
Other income			
Fees and commissions receivable	1,537	53	1,590
Fees and commissions payable	(362)	(17)	(379)
Dealing profits (before expenses)	128	5	133
Income from long-term assurance business	269	9	278
General insurance premium income	274	-	274
Other operating income	371	3	374
	2,217	53	2,270
Total income	4,693	278	4,971
Operating expenses			
Administrative expenses	2,074	117	2,191
Depreciation	322	6	328
Amortisation of goodwill	21	6	27
Depreciation and amortisation	343	12	355
Total operating expenses	2,417	129	2,546
Trading surplus	2,276	149	2,425
General insurance claims	128	-	128
Provisions for bad and doubtful debts			
Specific	457	23	480
General	-	-	-
	457	23	480
Amounts written off fixed asset investments	20	-	20
Operating profit	1,671	126	1,797
Share of results of joint ventures	(11)	-	(11)
Profit on sale of businesses	-	880	880
Profit on ordinary activities before tax	1,660	1,006	2,666
Tax on profit on ordinary activities	503	31	534
Profit on ordinary activities after tax	1,157	975	2,132
Minority interests - equity	12	-	12
- non-equity	24	-	24
Profit for the period attributable to shareholders	1,121	975	2,096
Dividends			1,314
Profit for the period			782
Earnings per share			37.6p
Diluted earnings per share			37.5p

4. Economic profit

In pursuit of our aim to maximise shareholder value, we use a system of value based management as a framework to identify and measure value in order to help us make better business decisions. Accounting profit is of limited use as a measure of value creation and performance as it ignores the cost of the equity capital that has to be invested to generate the profit. We choose economic profit as a measure of performance because it captures both growth in investment and return. Economic profit represents the difference between the earnings on the equity invested in a business and the cost of the equity. Our calculation of economic profit uses average equity for the half-year and is based on a cost of equity of 9 per cent (2003: 9 per cent).

Economic profit instils a rigorous financial discipline in determining investment decisions throughout the Group. It enables us 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.

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
Average shareholders' equity	**9,840**	8,301	8,616
Profit attributable to shareholders	**1,083**	1,158	2,096
Less: notional charge	**(440)**	(370)	(391)
Economic profit	**643**	788	1,705

The notional charge has been calculated by multiplying average shareholders' equity by the cost of equity.

5. Earnings per share

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
Basic			
Profit attributable to shareholders	**£1,083m**	£1,158m	£2,096m
Weighted average number of ordinary shares in issue	**5,589m**	5,581m	5,581m
Earnings per share	**19.4p**	20.7p	37.6p
Fully diluted			
Profit attributable to shareholders	**£1,083m**	£1,158m	£2,096m
Weighted average number of ordinary shares in issue	**5,625m**	5,617m	5,583m
Earnings per share	**19.3p**	20.6p	37.5p

6. Tax

The effective rate of tax was 28.7 per cent compared to an effective rate of tax of 29.2 per cent in the first half of 2003, and the standard UK corporation tax rate of 30 per cent.

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

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
Profit on ordinary activities before tax	**1,564**	1,682	2,666
Tax charge thereon at UK corporation tax rate of 30%	**469**	504	800
Factors affecting charge:			
Goodwill amortisation	**5**	5	4
Overseas tax rate differences	**(3)**	3	(12)
Gains exempted or covered by capital losses	**(6)**	1	(277)
Tax deductible coupons on non-equity minority interests	**(6)**	(6)	(6)
Life companies rate differences	**(3)**	(10)	26
Other items	**(7)**	(6)	(1)
Tax charge	**449**	491	534

7. Investment variance

In accordance with generally accepted accounting practice in the UK, it is the Group's accounting policy to carry the investments comprising the reserves held by its life companies at market value. The reserves held to support the with-profits business of Scottish Widows are substantial and changes in market values will result in significant volatility in the Group's embedded value earnings, which are beyond the control of management. Consequently, in order to provide a clearer representation of the underlying performance, the results of the life and pensions, and general insurance businesses are separately analysed to include investment earnings calculated using longer-term investment rates of return. This investment variance represents the difference between the actual investment return in the year on investments backing shareholder funds and the expected return based upon the economic assumptions made at the beginning of the year, and the effect of these fluctuations on the value of in-force business. The effects of other changes in economic circumstances beyond the control of management are also reflected in the investment variance. The longer-term rates of return for the period are consistent with those used by the Group in the calculation of the embedded value at the beginning of the period, which were 7.45 per cent for equities and 4.85 per cent for Gilts.

7. Investment variance (continued)

Lloyds TSB General Insurance also holds investments to support its underwriting business; these are carried at market value and gains and losses included within dealing profits. Consistent with the approach adopted for the life and pensions business, an operating profit for the general insurance business is calculated including investment earnings normalised using the same long-term rates of return.

During the first half of 2004 there was a negative investment variance of £72 million, primarily as a result of the impact of a reduction in the value of fixed interest investments.

8. Changes in economic assumptions

In accordance with the Association of British Insurers' detailed guidance for the preparation of figures using the achieved profits method of accounting the Group has reviewed the economic assumptions used in the embedded value calculations. The guidance requires that the assumptions should be reviewed at each reporting date.

The main economic assumptions were revised at 30 June 2004 as follows:

	30 June 2004 %	31 December 2003 %
Risk-adjusted discount rate (net of tax)	**7.77**	7.60
Return on equities (gross of tax)	**7.69**	7.45
Return on fixed interest securities (gross of tax)	**5.09**	4.85
Expenses inflation	**3.90**	3.80

9. Loss on sale of businesses

During the first half of 2004, the Group disposed of its businesses in Panama and Guatemala and a loss of £3 million was recognised in the profit and loss account. In July 2004, the Group announced the sale of its businesses in Argentina and Colombia, subject to approval by the relevant regulatory authorities. As a result, a £13 million goodwill write-off has been recognised in the profit and loss account for the first half of 2004. During 2003, the Group disposed of a number of its overseas businesses and, as a result, a loss of £15 million was recognised in the Group's profit and loss account in the first half of 2003, and a net profit of £880 million was recognised in the second half of 2003. An itemised breakdown is provided below.

9. Loss on sale of businesses (continued)

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
French wealth management businesses	**-**	(15)	-
Brazilian businesses	**-**	-	(41)
The National Bank of New Zealand	**-**	-	921
Panama and Guatemala	**(3)**	-	-
Colombia	**(13)**	-	-
	(16)	(15)	880

10. Free Asset Ratio

The free asset ratio is a common measure of financial strength in the UK for long-term insurance businesses. It is the ratio of assets less liabilities (including actuarial reserves but before the required regulatory minimum solvency margin) expressed as a percentage of the liabilities. At 30 June 2004, the free asset ratio of Scottish Widows plc was an estimated 14.0 per cent, compared with 13.6 per cent at 31 December 2003. After adjusting for the required regulatory minimum solvency margin, the Scottish Widows plc ratio, expressed as a percentage of total assets, was an estimated 8.7 per cent at 30 June 2004, compared with 8.3 per cent at 31 December 2003.

11. Reconciliation of movements in shareholders' funds

	Half-year to 30 June 2004 £m	Year ended 31 December 2003 £m
Profit attributable to shareholders	**1,083**	3,254
Dividends	**(599)**	(1,911)
Profit for the period	**484**	1,343
Currency translation differences on foreign currency net investments	**(17)**	118
Actuarial losses recognised in post-retirement benefit schemes	**-**	(4)
Issue of shares	**9**	45
Movements in relation to own shares	**(5)**	(2)
Goodwill written-back on sale of businesses	**3**	181
Net increase in shareholders' funds	**474**	1,681
Shareholders' funds at beginning of period	**9,624**	7,943
Shareholders' funds at end of period	**10,098**	9,624

12. Income and expenses reconciliation

To facilitate comparisons with prior periods, certain income and expense comparisons have been made excluding discontinued operations, changes in economic assumptions, investment variance, customer redress provisions and the sale of emerging markets debt bonds and certain closed foreign exchange positions. Reconciliations are detailed below:

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
Income, excluding discontinued operations, changes in economic assumptions, investment variance, customer redress provisions, and the sale of emerging markets debt bonds and certain closed foreign exchange positions	**4,595**	4,333	4,624
Discontinued operations	**-**	375	278
Changes in economic assumptions	**7**	(8)	(14)
Investment variance	**(72)**	42	83
Customer redress provisions	**-**	(100)	-
Sale of emerging markets debt bonds and certain closed foreign exchange positions	**-**	295	-
Total income	**4,530**	4,937	4,971

	Half-year to 30 June		Half-year to 31 December
	2004	2003	2003
	£m	£m	£m
Expenses, excluding discontinued operations and customer redress provisions	**2,363**	2,284	2,417
Discontinued operations	**-**	143	129
Customer redress provisions	**-**	200	-
Total operating expenses	**2,363**	2,627	2,546

13. Dividend

An interim dividend for 2004 of 10.7p per share (2003: 10.7p), will be paid on 6 October 2004.

Shareholders who have already joined the dividend reinvestment plan will automatically receive shares instead of the cash dividend. Shareholders who have not joined the plan and wish to do so may obtain an application form from Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA (telephone 0870 6003990). Key dates for the payment of the dividend are:

Shares quoted ex-dividend	11 August
Record date	13 August
Final date for joining or leaving the dividend reinvestment plan	8 September
Interim dividend paid	6 October

14. Other information

Results for the half-year ended 30 June were approved by the directors on 29 July 2004.

Statutory accounts for the year ended 31 December 2003 were delivered to the registrar of companies. The auditors' report on these accounts was unqualified and did not include a statement under sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237 (3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

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

Information about the Group's role in the community and copies of the Group's code of business conduct and its environmental report may be obtained by writing to Public Affairs, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN. This information is also available on the Group's website.