Lloyds TSB Group plc

2004 Results

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 33, note 15). 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 33, note 16), the profit/loss on the sale of a number of overseas businesses in 2003 and 2004 (page 34, note 17) and the trading results of businesses sold in 2003 have been separately analysed and a reconciliation to the Group's profit before tax is shown on page 1.

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 DIVISION

	2004 **£m**	2003 £m	Increase (Decrease) %
UK Retail Banking			
Before provisions for customer redress	**1,751**	1,671	5
Provisions for customer redress	**(100)**	(200)	
	1,651	1,471	12
Insurance and Investments			
Before provisions for customer redress	**785**	665	18
Provisions for customer redress	**(12)**	(100)	
	773	565	37
Wholesale and International Banking (continuing operations)	**1,272**	1,038	23
Central group items (page 26, note 4)	**(333)**	(12)	
Profit before tax from continuing operations*	**3,363**	3,062	10
Changes in economic assumptions (page 33, note 16)	**(2)**	(22)	
Investment variance (page 33, note 15)	**147**	125	
Loss on sale of businesses in 2004	**(15)**	-	
Discontinued operations in 2003	**-**	1,183	
Profit before tax	**3,493**	4,348	(20)

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

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.

YEAR END ASSETS BY DIVISION

	2004 **£m**	2003 £m
UK Retail Banking	**101,615**	90,541
Insurance and Investments*	**10,225**	9,844
Wholesale and International Banking	**112,968**	101,286
Central group items	**271**	263
Total assets*	**225,079**	201,934

*excluding long-term assurance assets attributable to policyholders

PERFORMANCE HIGHLIGHTS

Key achievements – continuing operations

- The Group has improved its profits in each division. Strong earnings momentum continued into the second half of 2004.
- Good franchise growth with customer lending up by 14 per cent to £154 billion and customer deposits up by 5 per cent to £122 billion.
- Costs remain firmly under control. Income growth exceeded cost growth in each division and at Group level.
- Strong credit quality, with improved trends in provisions for bad and doubtful debts.
- Capital ratios remain satisfactory. Lloyds TSB Bank’s ‘triple A’ credit rating from Moody’s was reaffirmed in November 2004.

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

- Profit before tax increased by £301 million, or 10 per cent, to £3,363 million.
- Earnings per share increased by 12 per cent to 41.8p.
- Economic profit increased by 9 per cent to £1,442 million.
- Post-tax return on average shareholders’ equity 23.5 per cent.
- Post-tax return on average risk-weighted assets increased from 1.87 per cent to 1.95 per cent.

Results – statutory

- Profit before tax decreased by £855 million, or 20 per cent, to £3,493 million, reflecting the impact of businesses disposed in 2003 which contributed £1,183 million last year.
- Profit attributable to shareholders decreased by £833 million, or 26 per cent, to £2,421 million.
- Earnings per share decreased by 26 per cent to 43.3p.
- Post-tax return on average shareholders’ equity 24.3 per cent.
- Total capital ratio 10.0 per cent, tier 1 capital ratio 8.9 per cent.
- Dividend maintained. Final dividend of 23.5p per share, making a total of 34.2p for the year (2003: 34.2p)

PROFIT BEFORE TAX BY HALF-YEAR

	2004 H1 £m	**2004 H2 £m**	Increase %
UK Retail Banking			
Before provisions for customer redress	**818**	**933**	14
Provisions for customer redress	**-**	**(100)**	
	818	**833**	2
Insurance and Investments			
Before provisions for customer redress	**378**	**407**	8
Provisions for customer redress	**-**	**(12)**	
	378	**395**	4
Wholesale and International Banking	**616**	**656**	6
Central group items	**(167)**	**(166)**	
Profit before tax from continuing operations*	**1,645**	**1,718**	4
Changes in economic assumptions	**7**	**(9)**	
Investment variance	**(72)**	**219**	
(Loss) profit on sale of businesses	**(16)**	**1**	
Profit before tax	**1,564**	**1,929**	23

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

PERFORMANCE HIGHLIGHTS – CONTINUING OPERATIONS

Key achievements – UK Retail Banking

- Profit before tax, excluding customer redress provisions, increased by 5 per cent to £1,751 million. On the same basis, income growth of 4 per cent exceeded cost growth of 1 per cent.
- Strong balance growth in mortgages, credit cards and personal loans.
  - Mortgage balances increased by 13 per cent to £80.1 billion.
  - Credit card balances increased by 12 per cent to £7.5 billion.
  - Personal loan balances increased by 12 per cent to £10.7 billion.
- 20 per cent increase in quality customer current account recruitment.
- Good asset quality, with arrears position remaining satisfactory.

Key achievements – Insurance and Investments

- Profit before tax, excluding customer redress provisions, changes in economic assumptions and investment variance, increased by 18 per cent to £785 million.
- Good progress in strategy to increase value of new business.
  - New business contribution in Scottish Widows increased by 21 per cent.
  - Life and pensions new business margin increased to 28.6 per cent, from 25.8 per cent in 2003.
- 9 per cent increase in life and pensions sales, increasing the Group's market share to 7.5 per cent; 10 per cent growth in sales through the IFA distribution channel.
- Good progress with Lloyds TSB Insurance's strategy to develop its manufacturing business and increase focus on direct channels, which generated 12 per cent growth in new business sales.
- Strong capital position. Scottish Widows has paid a dividend of £200 million to Lloyds TSB.

Key achievements – Wholesale and International Banking

- Profit before tax, excluding impact of business disposals, increased by 23 per cent to £1,272 million. All major businesses performing well.
- Good progress in delivering the strategy to build an integrated wholesale bank.
- 11 per cent increase in Corporate Markets income.
- Income growth of 5 per cent exceeded cost growth of 2 per cent.
- Asset quality remains strong.

SUMMARY OF RESULTS

	2004 £m	2003 £m	Increase (Decrease) %
Results – continuing operations*			
Total income	**9,422**	9,152	3
Operating expenses	**4,917**	4,901	-
Trading surplus	**4,505**	4,251	6
Provisions for bad and doubtful debts	**866**	887	(2)
Profit before tax	**3,363**	3,062	10
Economic profit	**1,442**	1,329	9
Earnings per share (pence)	**41.8**	37.4	12
Post-tax return on average shareholders' equity (%)	**23.5**	n/a	
Results – statutory			
Total income	**9,567**	9,908	(3)
Operating expenses	**4,917**	5,173	(5)
Trading surplus	**4,650**	4,735	(2)
Provisions for bad and doubtful debts	**866**	950	(9)
Profit before tax	**3,493**	4,348	(20)
Profit attributable to shareholders	**2,421**	3,254	(26)
Economic profit (page 32, note 12)	**1,525**	2,493	(39)
Earnings per share (pence) (page 32, note 13)	**43.3**	58.3	(26)
Post-tax return on average shareholders' equity (%)	**24.3**	38.5	
Balance sheet			
Shareholders' equity	**9,977**	9,624	4
Net assets per share (pence)	**176**	170	4
Total assets	**279,843**	252,012	11
Loans and advances to customers	**154,240**	135,251	14
Customer deposits	**122,062**	116,496	5
Risk asset ratios	**%**	%	
Total capital	**10.0**	11.3	
Tier 1 capital	**8.9**	9.5	
Shareholder value			
Closing market price per share (year-end)	**473p**	448p	
Total market value of shareholders' equity	**£26.5bn**	£25.1bn	
Dividends per share	**34.2p**	34.2p	

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

GROUP CHIEF EXECUTIVE'S STATEMENT

2004 was a good year for Lloyds TSB and, in many respects, marks the closing of one chapter and the opening of another.

During the past two years, we worked on a three point plan:

- to enhance the quality, and decrease the volatility, of our earnings
- to maintain our good returns, and
- to achieve growth.

I am pleased to report that we have made good progress on each of these priorities and, in doing so, we have also addressed many of the concerns of our shareholders, which centred on the adequacy of our capital, the sustainability of the dividend and the achievement of growth whilst continuing to deliver strong returns.

Our results in 2004 reflect a higher quality of earnings. The five Latin American businesses that we sold had impacted adversely on our performance, incurring losses amounting to more than £200 million over the five years to 2003, equivalent to a negative return on equity of some 28 per cent. In addition, the earnings lost from the strategic sale of our businesses in New Zealand and Brazil were replaced within a year, as the Group's organic growth strategy continued to deliver.

The work that we have done to allocate our capital more efficiently, as well as the management of our quality and costs, has allowed us to maintain high returns whilst we focused the organisation on delivering growth. Pleasingly, we are starting to demonstrate better growth across all of our divisions and key businesses.

In the **Retail Bank**, income growth exceeded cost growth, we maintained or grew market share in most of the major product categories and we improved the depth of customer relationships. We used the year to put in place a more competitive product set and a new operating model, whereby we now manage the branch network on what we term a 'local markets' basis. In essence, we have returned the branch to being part of the local community and given branch managers greater authority to manage profitability and run their areas as businesses. We recognise that the needs of customers vary by community and, by organising in this way, we believe that we will be both more responsive and effective which will, in turn, result in faster growth. In our test markets, we achieved higher growth in quality customer recruitment and a greater improvement in customer satisfaction than in the rest of the branch network, and this is now starting to deliver an improved sales performance. The new model was extended to the entire branch network in the second half of 2004.

In **Wholesale Banking**, each of the major businesses made good progress in acquiring and deepening customer relationships and all delivered year-on-year profit improvements in excess of 20 per cent. The new management team strengthened our competitive position with enhanced product offerings and more proactive calling efforts. This renewed customer focus and better alignment of relationship and product managers resulted in a 25 per cent uplift in earnings in the Corporate Markets franchise. Business Banking and Asset Finance also performed strongly, supported by good income growth and strong cost control.

In **Insurance and Investments**, our new business contribution in Scottish Widows increased by 21 per cent as we successfully focused on more profitable, and more capital efficient business lines. The sales of life and pensions products in the branches were encouraging, although we lagged in unit trust sales. During 2004, supported by the launch of a simplified suite of bancassurance products in the second half of the year, we increased our market share of non-IFA life and pensions sales from 7.8 per cent to 8.9 per cent. Overall, life and pensions product sales increased by 9 per cent. In Lloyds TSB Insurance, increased investment resulted in strong growth in sales through direct channels and we maintained our market leading position in home insurance distribution.

In addition to the considerable progress in the divisions, we also used the year to enhance the effectiveness of the **Corporate Centre**, with the appointment of new directors in the Risk, Audit, Human Resources and Finance functions. This has enabled us to strengthen the operating disciplines across the Group, which provide the framework for us to grow in a sustained fashion.

We are only just beginning to unlock the growth potential of the Lloyds TSB franchise. During 2004, customer satisfaction ratings reached record levels, employee engagement scores rose to their highest level ever, credit quality remained strong and our financial disciplines guided the Group to exceed expectations in terms of financial performance. This gives us a solid underpinning for the future. We still have much to do in terms of improving our execution but I believe we can continue to deliver income growth in a controlled and sustainable way, due to the progress made by the divisions and improvements in our operating processes achieved during 2004.

As we look to the future, we are opening a new chapter focused primarily on growth. We will continue to focus our efforts on our core markets and build our skills to sustain superior performance. Our new priorities are designed to leverage our strengths in those markets and they are:

- to materially **deepen customer relationships**, meeting more of our customers' needs and winning a greater share of their business. In the last year and a half, we have put in place many of the pieces to build stronger relationships; across all of our divisions we have enhanced service performance and we have introduced improved product ranges. We have also introduced local markets in the Retail Bank and built up strong regional centres in the Wholesale Bank. Our task is now to integrate these pieces so that our customers enjoy better value and view us as the place to bring more of their business.

- to **improve our efficiency**, growing our top line whilst improving the productivity of our cost base, using the discipline of 'positive jaws'. As our income grows, we will continue to increase our investment to improve our customer satisfaction ratings and our efficiency, through further development of our quality performance, automation, straight-through processing and the more effective leveraging of our Groupwide cost base.

- to continue to **enhance the Group's capabilities and processes** to support faster growth. In Finance, we will further develop our capital management disciplines and our understanding of the key drivers of economic profit growth at a more granular level. In Risk, we will continue to build our skill base to enable us to grow with less volatility in our earnings and to take advantage of the strategic benefits of Basel II. In Human Resources, we are developing our people to perform to their full potential and to create the high performance organisation necessary to achieve our goals.

Looking back on the year, we achieved our three point plan and are now making marked progress on the elements of the Group's balanced scorecard. Our capital position is in good shape, with the impact of recent accounting changes incorporated into our plans, and we achieved growth and higher quality earnings. Our staff are engaged and the achievement of these favourable results is due to their commitment and dedication to serving our customers.

I look forward to seeing continued growth and progress against our revised set of priorities in 2005 and beyond.

J Eric Daniels
Group Chief Executive

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE

In 2004 the Group's statutory profit before tax was £3,493 million, a decrease of £855 million compared to £4,348 million in 2003. This decrease was attributable to the impact in 2003 of the profit on the sale and trading results of a number of overseas businesses, which contributed £1,183 million. For the same reason, profit attributable to shareholders decreased by £833 million, or 26 per cent, to £2,421 million and earnings per share decreased by 26 per cent to 43.3p.

To enable meaningful comparisons with 2003, it is appropriate to exclude the impact of these 2003 disposals, together with the investment variance and changes in economic assumptions in the Group's life assurance businesses. On this basis, as a result of earnings growth in each business unit, profit before tax increased by £301 million, or 10 per cent, to £3,363 million. Earnings per share increased by 12 per cent to 41.8p and economic profit increased by 9 per cent to £1,442 million. The post-tax return on average shareholders' equity was 23.5 per cent and the post-tax return on average risk-weighted assets increased to 1.95 per cent, from 1.87 per cent in 2003.

Group net interest income (page 26, note 5) from continuing operations increased by £176 million, or 4 per cent, and average interest-earning assets increased by 8 per cent to £170 billion. Strong consumer lending growth led to increases of £2.6 billion in average personal lending and credit card balances and £8.9 billion in average mortgage balances.

The Group net interest margin from continuing operations decreased by 11 basis points to 2.89 per cent, after adjusting for the impact of a change in the middle of 2004 in the Group's wholesale liquidity and funding strategy towards the use of more capital efficient reverse repurchase agreements, which have been excluded from the net interest margin calculation (page 26, note 5). This margin reduction reflected the impact of changes in business mix and lower margins in the Group's credit card, personal lending and mortgages portfolios as a result of competitive pressures. During the second half of 2004, however, we started to see a slowdown in the rate of margin erosion in a number of retail product areas. There has also been further substitution of net interest income for fee income in certain product lines.

Strong growth in loans and advances to customers and banks, partly offset by a reduction in debt securities, led to an 11 per cent increase in total assets to £280 billion. The Group's strategy to increase retail lending, particularly in mortgages, credit cards and personal loans, was reflected in a 14 per cent increase in loans and advances to customers to £154 billion. Customer deposits increased by £6 billion, or 5 per cent, to £122 billion, largely as a result of strong growth in current account credit balances which was supported by further progress in the take-up of added value current accounts.

Other income from continuing operations, excluding investment variance and changes in economic assumptions, increased by £89 million to £4,463 million (page 27, note 6). Prior year comparisons are, however, further distorted by the impact of the sale, in 2003, of the Group's portfolio of emerging markets debt bonds and certain closed foreign exchange positions and customer redress provisions. Excluding these items, other income increased by 7 per cent. Fees and commissions receivable increased by 5 per cent to £3,124 million as a result of higher income from the strong volume growth in credit and debit card services, partly as a result of the acquisition of the Goldfish credit card portfolio in September 2003, an increase in mortgage related fees, reflecting the growth in new mortgage lending during the year, and an increase in fees from large corporate business and asset based lending, as a result of growing customer transaction volumes.

Income from long-term assurance business, excluding the impact of customer redress provisions, increased by 32 per cent to £590 million as a result of significantly improved profitability in the Scottish Widows life and pensions business. There was also a £50 million increase in gains on the sales of assets, largely the realisation of venture capital investments.

Operating expenses on a continuing operations basis, excluding the impact of customer redress provisions, continued to be tightly controlled and increased by only 2 per cent to £4,817 million (page 35, note 20). Significant improvements have been made in processing and operational efficiency and the Group has continued to expand its programme of offshoring a number of its processing and back office operations to India. As a result of this constant focus on day-to-day operating cost control, the Group's cost:income ratio improved to 51.1 per cent, from 52.5 per cent in 2003 (page 28, note 7). Revenue growth exceeded cost growth in each division and at Group level.

Much of the Group's new retail lending during 2004 has been to existing customers where the Group has a better understanding of each individual customer's total financial position and this, in conjunction with a relatively benign economic environment and increased corporate liquidity, has led to credit quality remaining strong throughout the Group. Notwithstanding substantial growth in loans and advances to customers, the provisions charge for bad and doubtful debts within the Group's continuing operations was 2 per cent lower than in 2003 and, as a result, the Group's provisions charge expressed as a percentage of average lending improved to 0.59 per cent, compared to 0.66 per cent in 2003 (page 29, note 9). Non-performing lending was £1,240 million representing 0.8 per cent of total lending, down from 0.9 per cent at 31 December 2003.

During 2004 there has been an increase in the level of complaints relating to past sales and performance of certain endowment based and long-term savings products. Whilst the Group maintains provisions for customer redress in respect of past product sales, the adequacy of these provisions has been reviewed in the light of ongoing experience. As a result, an additional provision of £112 million has been made.

The Group's capital position remains satisfactory. At the end of 2004, the total capital ratio was 10.0 per cent and the tier 1 capital ratio was 8.9 per cent. Risk-weighted assets increased by 12 per cent to £132.2 billion, reflecting strong growth in consumer lending and mortgages, higher lending in Corporate Markets and the acquisition of a UK corporate loan portfolio from Danske Bank which added risk-weighted assets of some £2.0 billion. 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. Profit retentions for 2004 totalled £507 million.

Scottish Widows continues to be one of the most strongly capitalised life assurance companies in the UK. We remain satisfied with the overall capital position of Scottish Widows when calculated using the Financial Services Authority's (FSA) new 'realistic' basis of balance sheet reporting, and the first Individual Capital Assessment under the new FSA regime has been completed and shows that our capital requirements are well covered. At the end of December 2004 the working capital ratio of the Scottish Widows Long-Term Fund, applying the FSA's new realistic basis, was an estimated 19.0 per cent (page 34, note 18). The required risk capital margin was covered over 9 times. Scottish Widows has also paid a 2004 dividend of £200 million to Lloyds TSB reflecting the start of an expected regular dividend stream.

Recognising the Group's high existing dividend payout ratio, and reflecting a desire to maintain capital flexibility to continue making value enhancing acquisitions, such as the acquisition of Danske Bank's UK corporate loan portfolio in December 2004, the Board has decided to maintain the final dividend at 23.5p per share to make a total for the year of 34.2p per share. This represents a dividend yield for shareholders of 7.2 per cent, calculated using the 31 December 2004 share price of 473p.

Helen A Weir
Group Finance Director

SEGMENTAL ANALYSIS

Year ended 31 December 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	**3,198**	**99**	**1,966**	**(343)**	**4,920**	**-**	**4,920**
Other finance income	**-**	**-**	**-**	**39**	**39**	**-**	**39**
Other income	**1,639**	**1,170**	**1,641**	**13**	**4,463**	**-**	**4,463**
Total income	**4,837**	**1,269**	**3,607**	**(291)**	**9,422**	**-**	**9,422**
Operating expenses	**2,513**	**272**	**2,090**	**42**	**4,917**	**-**	**4,917**
Trading surplus (deficit)	**2,324**	**997**	**1,517**	**(333)**	**4,505**	**-**	**4,505**
General insurance claims	**-**	**224**	**-**	**-**	**224**	**-**	**224**
Bad debt provisions	**673**	**-**	**193**	**-**	**866**	**-**	**866**
Amounts written off fixed asset investments	**-**	**-**	**52**	**-**	**52**	**-**	**52**
Profit (loss) before tax*	**1,651**	**773**	**1,272**	**(333)**	**3,363**	**-**	**3,363**
Changes in economic assumptions	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Investment variance	**-**	**147**	**-**	**-**	**147**	**-**	**147**
Profit (loss) on sale of businesses	**-**	**-**	**(15)**	**-**	**(15)**	**-**	**(15)**
Profit (loss) before tax	**1,651**	**918**	**1,257**	**(333)**	**3,493**	**-**	**3,493**

Year ended 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	3,137	81	1,875	(349)	4,744	511	5,255
Other finance income	-	-	-	34	34	-	34
Other income	1,533	981	1,561	299	4,374	142	4,516
Total income	4,670	1,062	3,436	(16)	9,152	653	9,805
Operating expenses	2,583	261	2,048	9	4,901	272	5,173
Trading surplus	2,087	801	1,388	(25)	4,251	381	4,632
General insurance claims	-	236	-	-	236	-	236
Bad debt provisions	594	-	306	(13)	887	63	950
Amounts written off fixed asset investments	-	-	44	-	44	-	44
Share of results of joint ventures	(22)	-	-	-	(22)	-	(22)
Profit (loss) before tax*	1,471	565	1,038	(12)	3,062	318	3,380
Changes in economic assumptions	-	(22)	-	-	(22)	-	(22)
Investment variance	-	125	-	-	125	-	125
Profit on sale of businesses	-	-	-	-	-	865	865
Profit (loss) before tax	1,471	668	1,038	(12)	3,165	1,183	4,348

*excluding profit/loss on sale of businesses, changes in economic assumptions and investment variance
†restated (page 24, note 1)

DIVISIONAL PERFORMANCE

UK RETAIL BANKING

	2004	2003†
	£m	£m
Net interest income	**3,198**	3,137
Other income	**1,639**	1,533
Total income	**4,837**	4,670
Operating expenses:		
Before provisions for customer redress	**2,413**	2,383
Provisions for customer redress	**100**	200
	2,513	2,583
Trading surplus	**2,324**	2,087
Provisions for bad and doubtful debts	**673**	594
Share of results of joint ventures	**-**	(22)
Profit before tax	**1,651**	1,471
Profit before tax, before provisions for customer redress	**1,751**	1,671
Cost:income ratio, before provisions for customer redress	**49.9%**	51.0%
Total assets (year-end)	**£101.6bn**	£90.5bn
Total risk-weighted assets (year-end)	**£60.5bn**	£54.1bn

†restated (page 24, note 1)

Profit before tax from UK Retail Banking increased by £180 million, or 12 per cent, to £1,651 million, compared to £1,471 million in 2003, supported by continued strong growth in the Group's consumer lending portfolios, partly offset by lower product margins, higher current account credit balances, improved current account fee income, tight cost control and lower provisions for customer redress. Excluding the impact of provisions for customer redress, profit before tax in UK Retail Banking increased by 5 per cent, with income growth of 4 per cent and cost growth of 1 per cent.

During 2004, we completed the restructure of our retail branch network through the establishment of 165 profit centred local markets. Initially, we particularly focused on developing our business in the London and South East markets where Lloyds TSB is currently under represented. Good progress has been made, and in our test markets, we achieved higher growth in quality customer recruitment, and greater improvement in levels of customer satisfaction than elsewhere in the branch network, and this is now starting to deliver an improved sales performance.

UK Retail Banking (continued)

In 2004, market shares were increased or maintained in most key product areas including gross and net new mortgage lending, personal loans and credit cards. Income, profit and economic profit per customer all improved during 2004. Strong growth in volumes was achieved with personal loans outstanding at 31 December 2004 of £10.7 billion, an increase of 12 per cent during the year, and card balances of £7.5 billion, an increase of 12 per cent. Gross new mortgage lending increased by 9 per cent to a record £26.3 billion, compared with £24.2 billion in 2003. Net new lending increased to £9.3 billion resulting in a market share of net new lending of 9.2 per cent, and mortgage balances outstanding increased by 13 per cent to £80.1 billion. Credit balances on current accounts and savings and investment accounts increased by 7 per cent.

Within personal loans, key initiatives have been the increased use of behavioural and risk-based pricing, leveraging our customer relationship management capabilities to enable the Group to deliver more competitive pricing to better quality customers and to price by distribution channel within our existing customer base. 99 per cent of new personal loans, and 75 per cent of new credit cards, sold during 2004 were to existing customers, where the Group has a better understanding of an individual customer's total financial profile. The Group has also continued to avoid sub-prime lending. Dynamic delinquency measures, on a rolling 12 month basis, show an improving position for new business written. We have also continued to rationalise back office operations to improve efficiency and levels of customer service and satisfaction.

Operating expenses were well controlled throughout the business and as a result, excluding provisions for customer redress, increased by only £30 million, or 1 per cent, to £2,413 million compared with 4 per cent growth in income during the year.

The bad debt provisions charge increased by £79 million, or 13 per cent, to £673 million. £37 million of this increase reflected the acquisition in September 2003 of the Goldfish credit card and personal lending portfolios with the remainder reflecting 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 4.20 per cent, from 4.25 per cent in 2003, while the charge in the credit card portfolio increased to 3.42 per cent, from 3.19 per cent in 2003. In the mortgages business, there was a net provision release of £42 million (2003: £18 million release), reflecting the continuing low level of losses in a climate of rising house prices and historically low interest rates. Overall, the provisions charge as a percentage of average lending was 0.71 per cent, compared to 0.72 per cent in 2003, and the arrears position remained satisfactory.

C&G continues to focus on prime lending market segments, and has maintained 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 41 per cent (31 December 2003: 43 per cent), and the average loan-to-value ratio for C&G new mortgages and further advances written during 2004 was 62 per cent (2003: 62 per cent). At 31 December 2004, 88 per cent of C&G mortgage balances had an indexed loan-to-value ratio of less than 80 per cent and only 0.3 per cent of balances had an indexed loan-to-value ratio in excess of 95 per cent.

UK Retail Banking (continued)

Customers are increasingly choosing to buy via direct channels and continued investment in our direct channel capabilities has supported good levels of business growth. Our internet bank now has 3 million registered users and, in 2004, 1.2 million product sales were achieved through the internet, an increase of 39 per cent compared to 2003. Over 400 million transactions were processed through internet banking, an increase of 60 per cent on 2003. Sales through direct channels now represent 50 per cent of total sales.

Lloyds TSB remains a leader in the added value current account market, with over 4 million customers. Quality customer current account recruitment increased by 20 per cent, compared with 2003, whilst quality current account attrition was 11 per cent lower, reflecting improvements made in levels of process quality, customer service and customer satisfaction.

INSURANCE AND INVESTMENTS

	2004	2003†
	£m	£m
Life and pensions new business income	**419**	396
Life and pensions distribution costs	**(231)**	(241)
New business contribution	**188**	155
Existing business		
- expected return	**300**	283
- experience variances	**(41)**	(16)
- assumption changes and other items	**(39)**	(75)
	220	192
Provisions for customer redress	**(12)**	(100)
Development costs	**(11)**	(13)
Investment earnings	**167**	153
Profit before tax (life and pensions)*	**552**	387
Unit trusts	**75**	62
Unit trust distribution costs	**(22)**	(38)
Profit before tax (unit trusts)	**53**	24
Profit before tax (life, pensions and unit trusts)*	**605**	411
General insurance*	**160**	153
Scottish Widows Investment Partnership	**8**	1
Profit before tax*	**773**	565
Profit before tax, excluding provisions for customer redress*	**785**	665
New business margin (life and pensions)	**28.6%**	25.8%

*****excluding changes in economic assumptions and investment variance
†restated (page 24, note 1)

Profit before tax from Insurance and Investments, excluding changes in economic assumptions, investment variance and customer redress provisions, increased by 18 per cent to £785 million, from £665 million in 2003. On the same basis, profit before tax from our life, pensions and unit trust businesses increased by £106 million, or 21 per cent, to £617 million. The Group's strategy to improve its profit mix by focusing on more profitable, less capital intensive, business whilst constantly seeking to improve process and distribution efficiency has led to a 21 per cent increase in new business contribution to £188 million. As a result of this improved capital efficiency, strong sales of pensions and single premium investments, and a reduced emphasis on certain lower return products such as stakeholder pensions, the life and pensions new business margin increased to 28.6 per cent, from 25.8 per cent in 2003.

Profit before tax from existing business, excluding provisions for customer redress, increased by £28 million, or 15 per cent, to £220 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 £17 million, or 6 per cent, higher at £300 million.

Insurance and Investments (continued)

During 2004, there was a net charge of £80 million from changes in actuarial assumptions and experience variances, compared to a net charge of £91 million in 2003. Higher margins, lower distribution costs and an improved stock market performance led to a significant improvement in the profit before tax from unit trusts, despite a reduction in the level of unit trust sales.

Pre-tax profit from Scottish Widows Investment Partnership (SWIP) increased to £8 million, compared with £1 million in 2003, reflecting improved market performance and increased revenues from new business. SWIP won a record £2.1 billion of gross new business in 2004 and increased its assets under management by 6 per cent to £82 billion. The investment performance of fixed income and property remained strong in 2004. Corporate composite bonds outperformed the market in the three year period to 31 December 2004, and the principal property unit-linked funds have performed in the top quartile in each of the last three years. UK and European equity performance has shown steady improvement over 2004 and UK equities within SWIP's largest institutional funds have been significantly ahead of the benchmark in the second half of 2004. SWIP has introduced a new simplified fund range to support Lloyds TSB's bancassurance offer.

	2004	2003
	£m	£m
Weighted sales (regular + $^{1}/_{10}$ single)		
Life and pensions	**656.7**	601.7
Unit trusts	**86.4**	131.7
Life, pensions and unit trusts	**743.1**	733.4
Weighted sales by distribution channel		
Branch network	**238.9**	278.8
Independent financial advisers	**431.6**	391.6
Direct	**72.2**	61.6
Other, including International	**0.4**	1.4
Life, pensions and unit trusts	**743.1**	733.4
Group funds under management	**£bn**	£bn
Scottish Widows Investment Partnership	**82**	77
UK Wealth Management	**13**	11
International	**13**	15
	108	103

Overall, weighted sales in 2004 increased to £743.1 million, compared to £733.4 million in 2003 with 10 per cent growth in IFA sales to £431.6 million. Direct sales grew by 17 per cent to £72.2 million, while branch network sales were 14 per cent lower at £238.9 million largely reflecting the wider market trend of lower single premium unit trust sales. In life and pensions, supported by growth in all channels, weighted sales increased by 9 per cent to £656.7 million, resulting in an increase in the Group's estimated market share to 7.5 per cent, from 7.0 per cent in 2003. Through the branch network and direct channels, the Group's market share increased to 8.9 per cent, from 7.8 per cent in 2003, whilst the Group's market share in the IFA market improved to 7.0 per cent, from 6.7 per cent in 2003.

Insurance and Investments (continued)

General insurance

	2004	2003†
	£m	£m
Premium income from underwriting		
Creditor	**114**	104
Home	**442**	410
Health	**27**	43
Reinsurance premiums	**(29)**	(22)
	554	535
Commissions from insurance broking		
Creditor	**377**	351
Home	**30**	30
Health	**19**	16
Other	**160**	207
	586	604
Profit before tax*	**160**	153

*excluding investment variance
†restated (page 24, note 1)

Profit before tax, excluding investment variance, from our general insurance operations increased by £7 million, or 5 per cent, to £160 million.

Continued progress in improving levels of business retention and higher product margins led to premium income from underwriting increasing by £19 million, or 4 per cent. Home insurance income increased by 8 per cent. Insurance broking commission income decreased by £18 million as a £26 million increase in income from creditor insurance was offset by a £47 million reduction in other commissions, reflecting lower profit sharing income. There was a significant improvement in broking income from creditor insurance in the second half of the year, partly reflecting improvements in personal loan and credit card penetration rates.

The business strategy to increase investment in more cost efficient distribution through direct channels is starting to create a shift from face-to-face channels towards direct channels. As a result gross written premiums from new policies sold through direct channels increased by 12 per cent in 2004. Gross written premiums for new policies sold via the internet increased by 37 per cent.

Claims fell by £12 million to £224 million, compared to 2003, and the claims ratio fell to 38 per cent compared with 42 per cent in 2003, reflecting benign weather conditions and improved leverage of the supply chain. The combined ratio relating to the underwriting business was 83.2 per cent in 2004.

WHOLESALE AND INTERNATIONAL BANKING

	2004 £m	2003† £m
Net interest income	**1,966**	1,875
Other income	**1,641**	1,561
Total income	**3,607**	3,436
Operating expenses	**2,090**	2,048
Trading surplus	**1,517**	1,388
Provisions for bad and doubtful debts	**193**	306
Amounts written off fixed asset investments	**52**	44
Profit before tax - continuing operations*	**1,272**	1,038
(Loss) profit on sale of businesses	**(15)**	865
Trading results of businesses sold in 2003	**-**	318
Profit before tax	**1,257**	2,221
Cost:income ratio*	**57.9%**	59.6%
Total assets (year-end)	**£113.0bn**	£101.3bn
Total risk-weighted assets (year-end)	**£71.1bn**	£62.8bn

*excluding (loss) profit on sale of businesses and trading results of discontinued operations
†restated (page 24, note 1)

Wholesale and International Banking profit before tax, excluding profit/loss on sale of businesses and trading results of discontinued operations, increased by £234 million, or 23 per cent, to £1,272 million, from £1,038 million in 2003. On the same basis income growth of 5 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 cross-selling and capital efficiency has led to an increase in the post-tax return on average risk-weighted assets to 1.42 per cent compared with 1.23 per cent in 2003. In Wholesale, there was strong profit growth in Corporate Markets, Business Banking and Asset Finance, in addition to a reduction in provisions for bad and doubtful debts.

Excluding the trading results of businesses sold in 2003 net interest income increased by £91 million, or 5 per cent, reflecting higher income from improved margins in Corporate Banking and the Asset Finance businesses, and strong growth in customer lending in Asset Finance. Other income increased by £80 million, partly as a result of a £50 million increase in gains on the sales of assets, largely the realisation of venture capital investments by Lloyds TSB Development Capital. Costs were tightly controlled, 2 per cent higher at £2,090 million, reflecting higher staff related costs and increased investment spend within Corporate Markets, partially offset by lower operating lease depreciation within Asset Finance.

Wholesale and International Banking (continued)

The charge for provisions for bad and doubtful debts decreased by £113 million to £193 million. The charge in Wholesale fell by £68 million to £232 million, as a result of a decrease in provisions from the corporate lending portfolio, partially offset by higher charges in the Asset Finance business. In International Banking there was a credit of £39 million mainly reflecting a £30 million release from the general provision against the Group's exposures in Argentina.

We continue to deepen customer relationships, and the creation of an integrated regional sales structure, bringing together product specialists with relationship managers, has already started to generate positive results, with a 59 per cent increase in cross-selling income within Corporate Markets, including an 86 per cent increase in Financial Markets cross-selling income to £69 million in 2004. In Corporate Markets, which incorporates Corporate Banking, Structured Finance and Financial Markets, profit before tax grew by 25 per cent from £504 million in 2003 to £631 million, reflecting an increase in the contribution from both relationship and transactional business driven by a combination of higher income and a reduction in provisions.

In December 2004, we agreed the acquisition of a UK corporate loan portfolio from Danske Bank comprising some 110 relationships, with total assets of £1.2 billion and risk-weighted assets of some £2.0 billion. The transaction is expected to enable us to deepen the relationships we have with a number of our existing corporate customers and acquire some important new corporate relationships to support the growth within our Corporate Markets businesses.

Profit before tax in Business Banking grew by £23 million, or 22 per cent, to £126 million reflecting good growth in customer income and tight control of costs. Customer deposits rose by 3 per cent to £10.3 billion and customer lending increased by 9 per cent to £6.0 billion. Business Banking continued to grow its customer franchise, with net customer recruitment of some 12,000 during the year, regaining leadership in the start-up market with a share of 22 per cent in 2004.

Profit before tax in Lloyds TSB Asset Finance increased by 27 per cent to £202 million, compared with £159 million in 2003, largely reflecting the continued profitable development of the motor and leisure, and contract hire businesses. In the personal and retail finance business, new business volumes have increased by some 9 per cent, increasing market share. Lloyds TSB Commercial Finance have retained market leadership, measured by client numbers, with a 19 per cent market share, and the motor and leisure business continues to be the largest independent lender in the UK motor and leisure point of sale market with a market share of 20 per cent.

In International Banking, profit before tax, excluding the loss on sale of businesses and trading results of discontinued operations, increased by £27 million, or 21 per cent, to £157 million, reflecting a £45 million reduction in provisions, including a £30 million general provision release in Argentina.

During 2004, the Group completed the sale of its businesses in Panama, Guatemala, Honduras, Argentina and Colombia resulting in a net loss on disposal of £15 million.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2004 £m	Continuing operations 2003 £m	Discontinued operations 2003 £m	Total 2003 £m
Interest receivable:				
Interest receivable and similar income arising from debt securities	**423**	389	63	452
Other interest receivable and similar income	**9,972**	8,484	1,213	9,697
Interest payable	**5,475**	4,129	765	4,894
Net interest income	**4,920**	4,744	511	5,255
Other finance income	**39**	34	-	34
Other income				
Fees and commissions receivable	**3,124**	2,987	112	3,099
Fees and commissions payable	**(744)**	(688)	(34)	(722)
Dealing profits (before expenses)	**271**	525	35	560
Income from long-term assurance business	**715**	436	17	453
General insurance premium income	**554**	535	-	535
Other operating income	**688**	682	12	694
	4,608	4,477	142	4,619
Total income	**9,567**	9,255	653	9,908
Operating expenses				
Administrative expenses	**4,284**	4,229	247	4,476
Depreciation and amortisation	**633**	672	25	697
Total operating expenses	**4,917**	4,901	272	5,173
Trading surplus	**4,650**	4,354	381	4,735
General insurance claims	**224**	236	-	236
Provisions for bad and doubtful debts				
Specific	**953**	883	63	946
General	**(87)**	4	-	4
	866	887	63	950
Amounts written off fixed asset investments	**52**	44	-	44
Operating profit	**3,508**	3,187	318	3,505
Share of results of joint ventures	**-**	(22)	-	(22)
(Loss) profit on sale of businesses	**(15)**	-	865	865
Profit on ordinary activities before tax	**3,493**	3,165	1,183	4,348
Tax on profit on ordinary activities	**1,004**	931	94	1,025
Profit on ordinary activities after tax	**2,489**	2,234	1,089	3,323
Minority interests - equity	**26**	22	-	22
- non-equity	**42**	47	-	47
Profit for the year attributable to shareholders	**2,421**	2,165	1,089	3,254
Dividends	**1,914**			1,911
Profit for the year	**507**			1,343
Earnings per share	**43.3p**			58.3p
Diluted earnings per share	**43.0p**			58.1p

CONSOLIDATED BALANCE SHEET

	31 December 2004 £m	31 December 2003 £m
Assets		
Cash and balances at central banks	**1,078**	1,195
Items in course of collection from banks	**1,462**	1,447
Treasury bills and other eligible bills	**92**	539
Loans and advances to banks	**23,565**	15,547
Loans and advances to customers	**154,240**	135,251
Debt securities	**25,194**	28,669
Equity shares	**215**	458
Interests in joint ventures	**53**	54
Intangible assets	**2,425**	2,513
Tangible fixed assets	**4,181**	3,918
Other assets	**3,220**	3,944
Prepayments and accrued income	**2,573**	1,918
Long-term assurance business attributable to the shareholder	**6,781**	6,481
	225,079	201,934
Long-term assurance assets attributable to policyholders	**54,764**	50,078
Total assets	**279,843**	252,012
Liabilities		
Deposits by banks	**39,738**	23,955
Customer accounts	**122,062**	116,496
Items in course of transmission to banks	**631**	626
Debt securities in issue	**27,217**	25,922
Other liabilities	**6,619**	7,007
Accruals and deferred income	**3,866**	3,206
Post-retirement benefit liability	**2,231**	2,139
Provisions for liabilities and charges:		
Deferred tax	**1,473**	1,376
Other provisions for liabilities and charges	**417**	402
Subordinated liabilities:		
Undated loan capital	**5,852**	5,959
Dated loan capital	**4,400**	4,495
	10,252	10,454
Minority interests:		
Equity	**46**	44
Non-equity	**550**	683
	596	727
Called-up share capital	**1,419**	1,418
Share premium account	**1,145**	1,136
Merger reserve	**343**	343
Profit and loss account	**7,070**	6,727
Shareholders’ funds (equity and non-equity)	**9,977**	9,624
	225,079	201,934
Long-term assurance liabilities to policyholders	**54,764**	50,078
Total liabilities	**279,843**	252,012

CONSOLIDATED CASH FLOW STATEMENT

	2004 £m	2003 £m
Net cash inflow from operating activities	**3,469**	772
Dividends received from joint ventures and associated undertakings	**2**	5
Returns on investments and servicing of finance:		
Dividends paid to equity minority interests	**(24)**	(14)
Payments made to non-equity minority interests	**(44)**	(81)
Interest paid on subordinated liabilities (loan capital)	**(606)**	(600)
Net cash outflow from returns on investments and servicing of finance	**(674)**	(695)
Taxation:		
UK corporation tax	**(656)**	(598)
Overseas tax	**(107)**	(186)
Total taxation	**(763)**	(784)
Capital expenditure and financial investment:		
Additions to fixed asset investments	**(10,088)**	(35,420)
Disposals and maturities of fixed asset investments	**9,732**	36,281
Additions to tangible fixed assets	**(1,183)**	(778)
Disposals of tangible fixed assets	**243**	287
Net cash (outflow) inflow from capital expenditure and financial investment	**(1,296)**	370
Acquisitions and disposals:		
Additions to interests in joint ventures	**-**	(12)
Acquisition of group undertakings and businesses	**(16)**	(1,106)
Disposal of group undertakings and businesses	**(25)**	2,382
Net cash (outflow) inflow from acquisitions and disposals	**(41)**	1,264
Equity dividends paid	**(1,913)**	(1,908)
Net cash outflow before financing	**(1,216)**	(976)
Financing:		
Issue of subordinated liabilities (loan capital)	**699**	533
Cash proceeds from issue of ordinary share capital and transactions in own shares held in respect of employee share schemes	**11**	32
Repayment of subordinated liabilities (loan capital)	**(764)**	(75)
Repayment of minority investment in subsidiaries	**(132)**	-
Capital element of finance lease rental payments	**(1)**	(1)
Net cash (outflow) inflow from financing	**(187)**	489
Decrease in cash	**(1,403)**	(487)

NOTES

1. Accounting policies and presentation

Accounting policies are unchanged from 2003.

From the beginning of 2004 the Group changed its UK branch and other distribution networks from cost centres to profit centres and, consequently, amended the internal commission arrangements between these networks and the insurance product manufacturing businesses within the Group. The effect of this change has been to redistribute income from the insurance segments to UK Retail Banking and, to a lesser extent, to Wholesale. In addition, certain costs previously included in Central group items were reallocated to divisions. The 2003 segmental analysis has been restated to reflect these changes.

2. Future accounting developments

International Financial Reporting Standards (‘IFRS’)

From 1 January 2005, the Group has been using International Financial Reporting Standards (IFRS) as its primary financial reporting framework. The Group will report IFRS results for the first time in its interim report for the six months to 30 June 2005 and in its 2005 annual report. Comparative information in these reports will be fully reconciled to reported UK GAAP numbers.

As a 2005 first-time adopter of IFRS, the Group is required to prepare an opening balance sheet as at 1 January 2004. Most accounting policy adjustments to apply IFRS retrospectively will be made against retained earnings in this opening balance sheet. However, transitional adjustments relating to those standards for which restated comparatives are not required will be made on 1 January 2005. Restated comparatives are not required for IAS 32 ‘Financial Instruments: Disclosure and Presentation’, IAS 39 ‘Financial Instruments: Recognition and Measurement’ and IFRS 4 ‘Insurance Contracts’.

A Steering Committee has been overseeing the adoption of IFRS for the Group and has closely monitored developments in IFRS and the impact for the Group’s accounting policies and financial position. Work streams evaluated the impact of specific accounting changes and undertook significant work during 2004 including technical analysis, development of IFRS-compliant solutions and project management of necessary systems and process changes. The Group has been preparing its internal management accounts using IFRS since 1 January 2005.

The overall impact on net assets and earnings up to 1 January 2005 is not expected to be significant. Current indications for 2005 are that, excluding the effects of derivative and equity valuations introduced with IAS 39 and FRS 27, the overall impact of these accounting and regulatory changes will reduce the earnings of the Group, both before and after goodwill amortisation, by less than 5 per cent, and that the Group’s regulatory capital position will not be materially affected.

2. Future accounting developments (continued)

FRS 27 'Life Assurance'

In July 2004, the UK Accounting Standards Board ('ASB') issued an exposure draft of a new accounting standard setting out changes to the way in which life assurance business is accounted for. It was initially proposed that the standard would become effective in 2004, however many of the respondents to the exposure draft argued that this was unrealistic. After discussion the ASB agreed to defer mandatory implementation of the resulting accounting standard (FRS 27) until 2005. This was on the basis that leading members of the life assurance and bancassurance sectors (including Lloyds TSB) committed both to adopt the requirements of FRS 27 in 2005, although technically not applicable to those reporting under IFRS, and to disclose certain additional information relating to their life assurance operations this year. These disclosures will be contained in the Group's 2004 annual report and accounts.

As a result of the implementation of FRS27 in 2005 the Group is required to exclude from the value of in-force business recognised in the balance sheet any amounts that reflect future investment margins, and measure the liabilities of the Scottish Widows with-profits fund in accordance with the Financial Services Authority's realistic capital regime, subject to certain specified adjustments.

3. Mortgage lending

	2004	2003
Gross new mortgage lending	**£26.3bn**	£24.2bn
Market share of gross new mortgage lending	**9.0%**	8.7%
Net new mortgage lending	**£9.3bn**	£8.3bn
Market share of net new mortgage lending	**9.2%**	8.2%
Mortgages outstanding (year-end)	**£80.1bn**	£70.8bn
Market share of mortgages outstanding	**9.1%**	9.1%

4. Central group items

	2004	2003†
	£m	£m
Accrual for payment to Lloyds TSB Foundations	**(31)**	(31)
Other finance income	**39**	34
Funding cost of acquisitions less earnings on capital	**(342)**	(345)
Profit on sale of emerging markets debt portfolio and certain closed foreign exchange positions	**-**	295
Central costs and other unallocated items	**1**	35
	(333)	(12)

†restated (page 24, 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 Lloyds TSB Group's pre-tax profit after adjusting for gains and losses on the disposal of businesses and pre-tax minority interests, averaged over three years, instead of the dividend on their shareholdings. In 2004, the Group accrued £31 million for payment to the Lloyds TSB Foundations.

During 2003 improved secondary bond market conditions allowed the Group to sell its remaining portfolio of emerging markets debt securities. Profits on these bond sales, and certain closed foreign exchange positions, in 2003 totalled £295 million.

5. Group net interest income

	2004	2003
	£m	£m
Continuing operations		
Net interest income	**4,920**	4,744
Average interest-earning assets, excluding reverse repos	**170,225**	158,167
Net interest margin (%)	**2.89**	3.00

During the second half of 2004 the Group net interest margin was significantly affected by the impact of a change in the Group's wholesale funding and liquidity strategy towards the use of more capital efficient funding instruments. Instruments held for liquidity purposes that were classified as trading instruments have been replaced by reverse repurchase agreements which historically have been treated as banking book items. In order to preserve comparability in the Group's published net interest margin these reverse repos have been excluded from average interest-earning assets. This change to a more capital efficient funding and liquidity strategy has no significant impact on Group net interest income. On a similar basis, the net interest margin for the first half of 2004 was 2.95 per cent and average interest-earning assets totalled £166,320 million. Average interest-earning assets for 2004 exclude £8.8 billion of reverse repos (2004 first half: £3.5 billion; 2004 second half: £13.9 billion).

6. Other income

	2004	2003
	£m	£m
Fees and commissions receivable:		
UK current account fees	**637**	623
Other UK fees and commissions	**1,243**	1,173
Insurance broking	**586**	604
Card services	**520**	439
International fees and commissions	**138**	148
	3,124	2,987
Fees and commissions payable	**(744)**	(688)
Dealing profits (before expenses):		
Foreign exchange income	**178**	223
Securities and other gains	**85**	289
	263	512
Income from long-term assurance business	**578**	346
General insurance premium income	**554**	535
Other operating income	**688**	682
Total other income - continuing operations*	**4,463**	4,374
Investment variance	**147**	125
Changes in economic assumptions	**(2)**	(22)
Discontinued operations	**-**	142
Total other income	**4,608**	4,619

*excluding investment variance and changes in economic assumptions

7. Operating expenses

	2004	2003
	£m	£m
Administrative expenses:		
Staff:		
Salaries	**1,793**	1,675
National insurance	**140**	137
Pensions	**338**	342
Other staff costs	**276**	277
	2,547	2,431
Premises and equipment:		
Rent and rates	**274**	271
Hire of equipment	**17**	17
Repairs and maintenance	**129**	123
Other	**110**	114
	530	525
Other expenses:		
Communications and external data processing	**439**	411
Advertising and promotion	**163**	160
Professional fees	**141**	118
Provisions for customer redress	**100**	200
Other	**364**	384
	1,207	1,273
Administrative expenses	**4,284**	4,229
Depreciation	**589**	633
Amortisation of goodwill	**44**	39
Total operating expenses - continuing operations	**4,917**	4,901
Discontinued operations	**-**	272
Total operating expenses	**4,917**	5,173
Cost:income ratio	**51.4%**	52.2%
Cost:income ratio*	**51.1%**	52.5%

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

8. Number of employees (full-time equivalent)

	31 December 2004	31 December 2003
UK Retail Banking	**43,732**	44,295
Insurance and Investments	**5,538**	5,775
Wholesale and International Banking	**18,973**	19,827
Other	**1,742**	1,712
Total number of employees (full-time equivalent)	**69,985**	71,609

9. Charge for bad and doubtful debts

	2004	2003
	£m	£m
UK Retail Banking		
Personal loans/overdrafts	**473**	430
Credit cards	**242**	182
Mortgages	**(42)**	(18)
	673	594
Wholesale and International Banking - continuing operations	**193**	306
Central group items	**-**	(13)
Total charge - continuing operations	**866**	887
Discontinued operations	**-**	63
Total charge	**866**	950
Specific provisions	**953**	946
General provisions	**(87)**	4
Total charge	**866**	950

	%	%
Charge as % of average lending:		
Personal loans/overdrafts	**4.20**	4.25
Credit cards	**3.42**	3.19
Mortgages	**(0.06)**	(0.03)
UK Retail Banking	**0.71**	0.72
Wholesale and International Banking - continuing operations	**0.37**	0.60
Total charge - continuing operations	**0.59**	0.66

Closing provisions as % of lending (excluding unapplied interest)	**2004**		2003	
	£m		£m	
Specific:				
Domestic	**1,282**	**(0.8%)**	1,132	(0.9%)
International	**101**	**(1.9%)**	181	(2.8%)
	1,383	**(0.8%)**	1,313	(0.9%)
General	**280**	**(0.2%)**	382	(0.3%)
Total	**1,663**	**(1.0%)**	1,695	(1.2%)

10. Capital ratios

	31 December 2004 £m	31 December 2003 £m
Capital		
Tier 1	**11,725**	11,223
Tier 2	**8,800**	8,935
	20,525	20,158
Supervisory deductions	**(7,252)**	(6,898)
Total capital	**13,273**	13,260
Risk-weighted assets	**£bn**	£bn
UK Retail Banking	**60.5**	54.1
Insurance and Investments	**0.2**	0.2
Wholesale and International Banking	**71.1**	62.8
Central group items	**0.4**	0.6
Total risk-weighted assets	**132.2**	117.7
Risk asset ratios		
Total capital	**10.0%**	11.3%
Tier 1	**8.9%**	9.5%

	2004	2003
Post-tax return on average risk-weighted assets	**2.01%**	2.63%
Post-tax return on average risk-weighted assets - continuing operations*	**1.95%**	1.87%

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

During 2004, total capital for regulatory purposes increased by £13 million to £13,273 million. Tier 1 capital increased by £502 million, mainly as a result of profit retentions, and tier 2 capital decreased by £135 million largely due to the reduction in the Group’s general bad debt provision. There was an increase in supervisory deductions of £354 million, mainly as a result of an increase of £300 million in the long-term assurance business attributable to the shareholder to £6,781 million, from £6,481 million in December 2003.

11. Balance sheet information

	31 December 2004 £m	31 December 2003 £m
Deposits - customer accounts		
Sterling:		
Non-interest bearing current accounts	**3,277**	3,115
Interest bearing current accounts	**30,471**	27,266
Savings and investment accounts	**57,260**	55,990
Other customer deposits	**19,241**	17,605
Total sterling	**110,249**	103,976
Currency	**11,813**	12,520
Total deposits - customer accounts	**122,062**	116,496
Loans and advances to customers		
Domestic:		
Agriculture, forestry and fishing	**2,076**	2,025
Manufacturing	**3,292**	3,211
Construction	**1,877**	1,497
Transport, distribution and hotels	**6,753**	4,741
Property companies	**5,775**	4,577
Financial, business and other services	**12,103**	9,652
Personal : mortgages	**80,065**	70,750
: other	**22,833**	20,139
Lease financing	**6,387**	6,470
Hire purchase	**4,828**	4,701
Other	**5,321**	3,351
Total domestic	**151,310**	131,114
International:		
Latin America	**125**	557
United States of America	**2,385**	2,681
Europe	**1,587**	1,981
Rest of the world	**516**	623
Total international	**4,613**	5,842
	155,923	136,956
Provisions for bad and doubtful debts*	**(1,662)**	(1,677)
Interest held in suspense*	**(21)**	(28)
Total loans and advances to customers	**154,240**	135,251

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

12. Economic profit

	2004	2003
	£m	£m
Average shareholders' equity	**9,956**	8,460
Profit attributable to shareholders	**2,421**	3,254
Less: notional charge	**(896)**	(761)
Economic profit	**1,525**	2,493

Economic profit represents the difference between the earnings on the equity invested in a business and the cost of the equity. The notional charge has been calculated by multiplying average shareholders' equity by the cost of equity used by the Group of 9 per cent (2003: 9 per cent).

13. Earnings per share

	2004	2003
Basic		
Profit attributable to shareholders	**£2,421m**	£3,254m
Weighted average number of ordinary shares in issue	**5,590m**	5,581m
Earnings per share	**43.3p**	58.3p
Fully diluted		
Profit attributable to shareholders	**£2,421m**	£3,254m
Weighted average number of ordinary shares in issue	**5,625m**	5,599m
Earnings per share	**43.0p**	58.1p

14. Tax

The effective rate of tax was 28.7 per cent compared to an effective rate of tax of 23.6 per cent in 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:

	2004	2003
	£m	£m
Profit on ordinary activities before tax	**3,493**	4,348
Tax charge thereon at UK corporation tax rate of 30%	**1,048**	1,304
Factors affecting charge:		
Goodwill amortisation	**9**	9
Overseas tax rate differences	**(14)**	(9)
Net tax effect of disposals	**(12)**	(276)
Tax deductible coupons on non-equity minority interests	**(12)**	(12)
Life companies rate differences	**(16)**	16
Other items	**1**	(7)
Tax charge	**1,004**	1,025

15. 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.

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 2004 there was a positive investment variance of £147 million, largely as a result of a rise in the FTSE All Share Index during the year.

16. 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 31 December 2004 as follows:

	31 December 2004 %	31 December 2003 %
Risk-adjusted discount rate (net of tax)	**7.40**	7.60
Return on equities (gross of tax)	**7.17**	7.45
Return on fixed interest securities (gross of tax)	**4.57**	4.85
Expenses inflation	**3.76**	3.80

17. Profit/loss on sale of businesses

During 2004, the Group disposed of its businesses in Panama, Guatemala, Honduras, Colombia and Argentina, and a net loss of £15 million was recognised in the profit and loss account. During 2003, the Group disposed of a number of its overseas businesses and, as a result, a net profit of £865 million was recognised in the profit and loss account in 2003. An itemised breakdown is provided below.

	2004	2003
	£m	£m
Panama, Guatemala and Honduras	**(1)**	-
Colombia	**(20)**	-
Argentina	**6**	-
French wealth management businesses	-	(15)
Brazilian businesses	-	(41)
The National Bank of New Zealand	-	921
	(15)	865

18. Scottish Widows - realistic balance sheet

Financial Services Authority (FSA) returns for large with-profits companies will include realistic balance sheet information for the first time this year. The information included in FSA returns concentrates on the position of the with-profits fund. However, under the Scottish Widows demutualisation structure, which was court approved, the fund is underpinned by certain assets outside the with-profits fund and it is more appropriate to consider the long-term fund position as a whole to measure the realistic capital position of Scottish Widows. Estimated positions at 31 December 2004 are shown below.

	With-profits fund £bn	Long-term fund £bn
Available assets, including support account	19.1	22.0
Realistic value of liabilities	(18.1)	(17.8)
Working capital for fund	1.0	4.2
Working capital ratio	5.1%	19.0%
Risk capital margin cover	2.4 times	9.3 times

In prior years the free asset ratio has been used as a key measure of financial strength for long-term insurance businesses. Recent FSA rule changes mean that free asset ratios are no longer directly comparable and, as a result, the working capital ratio and risk capital margin cover measures provide a more comparable and meaningful measure of financial strength. On a comparable basis with 2003 the free asset ratio (assets less liabilities, as a proportion of liabilities) of Scottish Widows plc would have increased by some 3.4 per cent to an estimated 17.0 per cent.

19. Reconciliation of movements in shareholders' funds

	2004	2003
	£m	£m
Profit attributable to shareholders	**2,421**	3,254
Dividends	**(1,914)**	(1,911)
Profit for the year	**507**	1,343
Currency translation differences on foreign currency net investments	**(11)**	118
Actuarial losses recognised in post-retirement benefit schemes	**(166)**	(4)
Issue of shares	**10**	45
Movements in relation to own shares	**10**	(2)
Goodwill written-back on sale of businesses	**3**	181
Net increase in shareholders' funds	**353**	1,681
Shareholders' funds at beginning of year	**9,624**	7,943
Shareholders' funds at end of year	**9,977**	9,624

20. 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:

	2004	2003
	£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	**9,434**	8,957
Discontinued operations	**-**	653
Changes in economic assumptions	**(2)**	(22)
Investment variance	**147**	125
Customer redress provisions	**(12)**	(100)
Sale of emerging markets debt bonds and certain closed foreign exchange positions	**-**	295
Total income	**9,567**	9,908

	2004	2003
	£m	£m
Expenses, excluding discontinued operations and customer redress provisions	**4,817**	4,701
Discontinued operations	**-**	272
Customer redress provisions	**100**	200
Total operating expenses	**4,917**	5,173

21. Dividend

A final dividend for 2004 of 23.5p per share (2003: 23.5p), will be paid on 4 May 2005, making a total for the year of 34.2p (2003: 34.2p).

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	16 March
Record date	18 March
Final date for joining or leaving the dividend reinvestment plan	6 April
Final dividend paid	4 May
Annual general meeting	5 May

22. Other information

The financial information included in this news release does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2004 were approved by the directors on 3 March 2005 and will be delivered to the registrar of companies following publication on 2 April 2005. 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.

A report on Form 20-F will be filed with the Securities and Exchange Commission in the United States.

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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.