

Lloyds TSB Group plc

2005 Results



Lloyds TSB

PRESENTATION OF RESULTS

Up to 31 December 2004 the Group prepared its financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). With effect from 1 January 2005 the Group implemented International Financial Reporting Standards (IFRS). In this document the 2004 comparative financial information has been restated to reflect the adoption of those IFRS standards which are required to be applied retrospectively, but does not include the additional impacts arising from first time application of IAS 32 'Financial Instruments: Disclosure and Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' (including UK Financial Reporting Standard 27 'Life Assurance'), which have been implemented with effect from 1 January 2005, with the opening balance sheet at that date adjusted accordingly. Further information on the impact of implementing IFRS on comparative information was published in the Group's 'Transition to IFRS' announcement on 27 May 2005.

The impact of IFRS, and in particular the increased use of fair values, has resulted in greater earnings volatility. In order to provide a more comparable representation of business performance this volatility has been separately analysed for the Group's insurance and banking businesses (page 31, note 4). In addition, other IFRS related adjustments applied with effect from 1 January 2005, for which comparatives are not required to be restated (page 31, note 3), and the impact on the Group's results of businesses sold in 2004, have been separately analysed in the Group's results. A reconciliation of this 'comparable' basis of presentation to the statutory 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. The Group's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks such as interest rate risk and exchange rate risk in its banking business and equity risk in its insurance businesses, changing demographic trends, unexpected changes to regulation or regulatory actions, changes in customer preferences, competition and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of such factors.

CONTENTS

	Page
Profit before tax by division	1
Assets by division	1
Performance highlights	2
Summary of results	3
Group Chief Executive's statement	4
Group Finance Director's review of financial performance	8
Segmental analysis	11
Divisional performance	
– UK Retail Banking	12
– Insurance and Investments	15
– Wholesale and International Banking	19
Consolidated income statement - statutory	22
Consolidated balance sheet - statutory	23
Condensed consolidated cash flow statement - statutory	24
Consolidated statement of changes in equity - statutory	25
Summarised segmental analysis - statutory	26
Notes	27
Contacts for further information	44

PROFIT BEFORE TAX BY DIVISION

	2005 £m	2004 £m	Change %
UK Retail Banking			
Before provisions for customer redress	1,681	1,739	(3)
Provisions for customer redress	(150)	(100)	
	1,531	1,639	(7)
Insurance and Investments			
Before provisions for customer redress and strengthening of reserves for mortality	908	790	15
Provisions for customer redress	-	(12)	
Strengthening of reserves for mortality (page 10)	(110)	-	
	798	778	3
Wholesale and International Banking	1,504	1,253	20
Central group items (page 34 note 7)	(367)	(350)	
Profit before tax – comparable basis	3,466	3,320	4
Volatility (page 31, note 4)			
- Banking	(124)	-	
- Insurance	438	168	
- Policyholder interests	311	(30)	
Other IFRS adjustments applied from 1 January 2005 (page 31, note 3)			
- Before strengthening of reserves for mortality	(276)	-	
- Strengthening of reserves for mortality	(45)	-	
	(321)	-	
Profit (loss) on sale of businesses (page 41, note 20)	50	(21)	
Trading results of discontinued operations in 2004	-	40	
Profit before tax	3,820	3,477	10

A more detailed reconciliation of comparable profit before tax to the Group's profit before tax for the year is shown in note 2 on page 29.

ASSETS BY DIVISION

	31 December 2005 £m	1 January 2005 £m	Change %
UK Retail Banking	103,930	96,472	8
Insurance and Investments	80,148	70,734	13
Wholesale and International Banking	124,044	123,826	-
Central group items	1,632	1,822	(10)
Total assets	309,754	292,854	6

PERFORMANCE HIGHLIGHTS

Results – statutory

- Profit before tax increased by £343 million, or 10 per cent, to £3,820 million.
- Profit attributable to equity shareholders increased by 4 per cent to £2,493 million.
- Earnings per share increased by 4 per cent to 44.6p.
- Post-tax return on average shareholders' equity increased to 25.6 per cent, from 22.8 per cent.
- Total capital ratio 10.9 per cent, tier 1 capital ratio 7.9 per cent.
- Dividend maintained. Final dividend of 23.5p per share, making a total of 34.2p for the year. Dividend cover increased to 1.3 times.

Results – comparable basis

- Profit before tax increased by £146 million, or 4 per cent, to £3,466 million.
Excluding customer redress provisions and the strengthening of reserves for mortality:
- Profit before tax increased by £294 million, or 9 per cent, to £3,726 million.
- Income growth of 7 per cent exceeded cost growth of 4 per cent.
- Earnings per share increased by 11 per cent to 47.2p.
- Economic profit increased by 14 per cent to £1,620 million.
- Post-tax return on average shareholders' equity increased to 23.3 per cent, from 22.2 per cent.

Key achievements

- Continued good levels of earnings momentum. Improved levels of revenue growth.
- Costs remain firmly under control. Income growth of 7 per cent exceeded cost growth of 4 per cent. Enhanced cost management programme announced.
- Good franchise growth with customer lending up by 9 per cent to £175 billion and customer deposits up by 4 per cent to £131 billion.
- Increasing signs of net interest margin stability. 5 basis points increase in the banking net interest margin in the second half of 2005, compared to the first half of 2005.
- 28 per cent increase in retail banking target customer recruitment. Good levels of customer balance growth in many product areas.
- 21 per cent increase in life assurance new business weighted sales (bancassurance up 13 per cent; IFA sales up 30 per cent). Significant improvement in market share to an estimated 6.2 per cent, from 5.7 per cent. 19 per cent increase in new business contribution, and higher new business margin.
- Excellent progress in delivering the strategy to build an integrated Wholesale bank. 31 per cent increase in Corporate Markets profit before tax, and 35 per cent increase in Business Banking profit before tax.
- Overall credit quality remains satisfactory.
- Capital ratios remain robust, continued improvement in balance sheet management.

SUMMARY OF RESULTS

	2005	2004	Change
	£m	£m	%
Results – statutory			
Total income, net of insurance claims	10,540	9,661	9
Operating expenses	5,471	5,297	3
Trading surplus	5,069	4,364	16
Impairment losses on loans and advances	1,299	866	50
Profit before tax	3,820	3,477	10
Profit attributable to equity shareholders	2,493	2,392	4
Economic profit (page 40, note 17)	1,616	1,448	12
Earnings per share (page 40, note 18)	44.6p	42.8p	4
Post-tax return on average shareholders' equity	25.6%	22.8%	
Results – comparable basis (page 29, note 2)			
Total income, net of insurance claims	10,062	9,489	6
Operating expenses	5,506	5,266	5
Trading surplus	4,556	4,223	8
Impairment losses on loans and advances	1,090	903	21
Profit before tax	3,466	3,320	4
Excluding customer redress provisions and strengthening of reserves for mortality			
Total income, net of insurance claims	10,172	9,489	7
Operating expenses	5,356	5,154	4
Profit before tax	3,726	3,432	9
Economic profit	1,620	1,417	14
Earnings per share	47.2p	42.6p	11
Post-tax return on average shareholders' equity	23.3%	22.2%	
Post-tax return on average risk-weighted assets	1.92%	1.98%	
Shareholder value			
Closing market price per share (year end)	488.5p	473p	3
Total shareholder return	10.9%	15.1%	
Total market value of shareholders' equity	£27.4bn	£26.5bn	3
Proposed dividend per share (page 43, note 22)	34.2p	34.2p	
	31 December	1 January	
	2005	2005	
	£m	£m	
Balance sheet - statutory			
Shareholders' equity	10,195	9,489	7
Net assets per share (pence)	180	167	8
Total assets	309,754	292,854	6
Loans and advances to customers	174,944	161,162	9
Customer deposits	131,070	126,349	4
Risk asset ratios			
Total capital	10.9%	10.1%	
Tier 1 capital	7.9%	8.2%	

GROUP CHIEF EXECUTIVE'S STATEMENT

2005 was a good year for the Group, both in terms of our financial performance and, as importantly, in making further progress in the development of our organic growth strategy.

On the financial side, we increased our already high return on equity and we delivered a total return of 10.9 per cent to our shareholders. We grew the trading surplus in each division as the rate of growth in income exceeded that of costs and we achieved good overall earnings growth in the face of a slower economic environment.

In terms of delivering the Group strategy, we have established better sales momentum and stronger levels of customer acquisition in our banking businesses and delivered good sales growth in our life assurance business over the course of the year. Our market shares are either stable, or growing, in most of our key product lines. Most importantly, our customer relationship programmes are being effectively implemented and we are delivering higher revenues per customer in our retail and corporate banking businesses.

We have significantly enhanced our productivity, as the quality programmes that we commenced in 2003 continue to show improving results. This is reflected in our cost:income ratio which, on a comparable basis and excluding customer redress provisions and the strengthening of reserves for mortality, improved to 52.7 per cent, from 54.3 per cent in 2004, and I am pleased that we have achieved this whilst continuing to invest substantially in the business. Our customer satisfaction scores hit record highs in 2005, again reflecting the improvement programmes established over the last couple of years, and we will continue to drive further improvements as we seek to differentiate our service performance against that of our competitors.

The risk environment remains satisfactory overall, although we have seen a deterioration in the unsecured consumer lending portfolios as a result of an increase in the number of customers facing repayment difficulties, which has been offset by a strong performance in the Corporate lending portfolios. Over time, we expect the consumer position to stabilise in an improving economy, and for the trend in corporate impairments to move away from the unusually benign recent experience.

Our employee engagement scores have also improved significantly during the year, indicating that our people understand and are committed to our strategy, and we have improved our performance management processes in support of the Group strategy. We also strengthened our senior management team, with the addition of key hires in the Retail Bank.

Overall, I am pleased with the progress of the Group during 2005. We delivered on our financial plans and we also used the time to develop the franchise successfully in line with our growth strategy. We have continued to make good progress in each of the divisions, the highlights of which are summarised below.

In the **Retail Bank**, income grew 4 per cent whilst costs rose by just 1 per cent, on a comparable basis and excluding customer redress provisions. This led to 7 per cent growth in the trading surplus which was offset by an increase in the charge for impaired lending, reflecting an increase in customers experiencing repayment difficulties. Profit before tax reduced by 3 per cent. To reflect the general slowdown in the consumer credit markets, a number of actions were taken over the course of the year to tighten credit underwriting.

It is not in the interests of the individual customer or the Group to lend money to a customer who cannot afford to repay. The Group takes its responsibilities in this regard very seriously and has a responsible lending programme, to ensure we help our customers clearly understand the nature of the agreements they are entering into and we confirm affordability before agreeing to any borrowing requests. Where customers do experience repayment difficulties, our staff are trained to offer the necessary advice and support to manage their finances and we have a Customer Support Unit, whose role it is to identify customers who are showing early signs of financial difficulty so that we can provide early advice and support to them.

The Retail Bank is committed to achieving top performance in both effectiveness and efficiency. Effectiveness is the ability to recruit, develop and retain loyal customers who think of us first for their next financial services need. Efficiency is the ability to provide service and sales at a lower cost so that we can give our customers better value. We believe that in order to achieve our goal we must be customer rather than product centric.

We continue to focus our efforts on our existing customers where we have an information advantage that allows us to be more effective and efficient in providing sales and service that meet our customers' financial needs. We have also stepped up our new customer recruitment efforts, which have helped drive good target customer recruitment, particularly in the second half of the year, to give a 28 per cent increase over last year.

We have committed ourselves to earning the right to meet 100 per cent of our customers' financial services needs and helping them succeed financially. In 2005, we recorded our highest ever customer satisfaction scores across all our channels – branch, telephone and internet banking. The improvement in customer satisfaction and the renewed focus on meeting all our customers' financial services needs has helped to drive an improving sales performance during 2005, and has been accompanied by good balance growth in our key product lines with mortgages up 10 per cent, credit cards (excluding Goldfish) up 9 per cent and customer deposits 7 per cent higher. Sales through our internet and telephone channels grew strongly by 28 per cent and 39 per cent respectively.

In **Insurance and Investments**, profits showed significant growth, reflecting further success in delivering our strategies. Profit before tax, on a comparable basis and excluding the 2004 customer redress provision and the strengthening of reserves for mortality, increased by 15 per cent, underpinned by strong growth in both the bancassurance and IFA channels and continued control of costs. Profits grew strongly in both our life assurance and general insurance businesses.

Scottish Widows delivered a significant increase in sales as we focused on more profitable and more capital efficient business lines. This led to a 19 per cent increase in new business contribution. Bancassurance sales grew by 13 per cent despite a slowdown seen in the levels of mortgage related protection business. The sales of OEICs increased by 72 per cent, building on the launch of the simplified product suite that was introduced at the end of 2004.

IFA sales grew strongly with a 30 per cent improvement in weighted sales, underpinned by product and service improvements in pensions and investments. This improved performance led to an estimated market share of 6.8 per cent in 2005, compared to 5.9 per cent last year.

We have also invested in the development of new pensions and life platforms, and continue to develop our distribution capabilities. We remain well placed to benefit from the anticipated growth in savings and investment product sales over the coming years. The new life platform has already supported the launch of the new partnership with Virgin Money.

Scottish Widows remains strongly capitalised. In addition to the payment of a £200 million dividend to the Group in March 2005, Scottish Widows made a further £800 million distribution to the Group in December 2005 as part of our plans to improve capital efficiency. A second annual dividend will be paid in March 2006.

Our General Insurance business continued its successful development, delivering a 22 per cent growth in profits, supported by improvements to both the claims and combined ratios. The results reflect continued successful cross sales to franchise customers in both retail and business banking as well as continued investment in our service performance, direct channel business and claims processing.

In **Wholesale and International Banking**, our results show excellent progress in our core businesses and the division delivered a 20 per cent improvement in profit before tax, on a comparable basis, at the same time as improving returns. The good results were achieved by the successful implementation of our strategies in Business Banking and Corporate Markets and these businesses will continue to provide the platform for profitable growth in the division. We again maintained our management discipline of positive jaws, with the rate of growth in income increasing by 10 per cent whilst costs grew by 7 per cent, partly reflecting the increase in investment costs necessary to fund the ongoing development of the division.

In Business Banking, we have again reported strong franchise growth winning increasing numbers of new customers both through attracting profitable 'switchers' from other banks and by cementing our position as the leader in the business start-ups market with a share of 22 per cent. We have continued to build stronger relationships with our customers, as we satisfy more of their needs, and this has been reflected in good balance growth in both customer lending and deposits, as well as fee income.

Corporate Markets has delivered another strong performance with a 31 per cent improvement in profits supported by a 27 per cent growth in income from the cross-sale of products. The results reflect our strategy of managing these businesses in an integrated manner in support of our customers' success. We were pleased to receive external recognition of our efforts as we won a range of awards including the CBI Bank of the Year Award 2005. Across the businesses, our asset quality remains very strong with impairment losses declining year on year. We are continuing to invest within Corporate Markets, in terms of our relationship offers, our product range and our infrastructure, to ensure we can meet even more of our customers' needs in a highly competitive market.

Turning to 2006, our objective across each of the divisions is to continue to improve sales performance and deepen our customer relationships, which will result in market share growth. To support our efficiency and productivity objectives, we will continue to focus on the centralisation and industrialisation of our manufacturing capabilities, take the next steps in our procurement programme and further embed our quality approach throughout the Group.

In support of our customer objectives, we have set stretching customer satisfaction targets and will continue to develop our products, policies and procedures in line with those targets. Our strong risk and control infrastructure remains an important element of our growth strategy and will be further enhanced as we seek to develop risk into a differentiating competency. We will also continue to focus on the development of our staff, whilst aiming for even stronger engagement scores.

LLOYDS TSB GROUP PLC

In summary, 2005 was a good year for the Group. We delivered on our short-term financial goals whilst also investing in the long-term health of the business, which is necessary to drive sustainable future earnings growth. This is our last set of results under the chairmanship of Maarten van den Bergh and I would like to take this opportunity to record my appreciation for his major contribution to the Group over the past five and a half years. We are delighted that Sir Victor Blank will succeed him and we look forward to welcoming him to the Group shortly.

Continuing to grow a successful business is the best way for Lloyds TSB to create value for all our stakeholders and to contribute to the wider economy. We maintain one of the largest community investment programmes in the UK, supporting our customers and staff and making a significant contribution to the local communities in which we operate. Since 1997, the Lloyds TSB Foundations have received over £250 million from the Group's pre-tax profits to distribute to community groups and in 2006 they will receive in excess of £30 million.

Finally, I would like to express my continued thanks to all of the staff who work for the Lloyds TSB Group. They remain committed to serving the needs of our customers and their wonderful efforts are the key element to our continued success.

J Eric Daniels
Group Chief Executive

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE

With effect from 1 January 2005, the Group has been using IFRS for financial reporting. Although IFRS significantly changes the timing of earnings recognition in financial results it has no impact on our business fundamentals and cash flows, the development of our organic growth strategies, or our capital management policies.

Details of the retrospective impact of the Group's implementation of IFRS were published in our 'Transition to IFRS' announcement on 27 May 2005. The increased use in IFRS of fair values has, however, led to greater volatility in the earnings of the Group. In order to provide a more comparable representation of our business performance this earnings volatility, together with other IFRS related adjustments applied with effect from 1 January 2005 and the impact on the Group's results of businesses sold in 2004, have been separately analysed to provide a comparable basis of presentation.

In 2005 statutory profit before tax was £3,820 million, an increase of £343 million, or 10 per cent (2004: £3,477 million). Profit attributable to equity shareholders increased by £101 million, or 4 per cent, to £2,493 million and earnings per share increased by 4 per cent to 44.6p. Economic profit increased by 12 per cent to £1,616 million.

On a comparable basis, profit before tax increased by £146 million, or 4 per cent, to £3,466 million (2004: £3,320 million). Excluding the impact of customer redress provisions and the strengthening of reserves for mortality, profit before tax increased by 9 per cent to £3,726 million. Income increased by 7 per cent whilst costs grew by only 4 per cent. Earnings per share increased by 11 per cent to 47.2p. The post-tax return on shareholders' equity increased to 23.3 per cent (2004: 22.2 per cent) and economic profit rose by 14 per cent to £1,620 million.

Our strategy to deepen customer relationships has led to an increase in customer advances, particularly in mortgages, credit cards and corporate lending, and is reflected in a 9 per cent increase in loans and advances to customers to £175 billion. Customer deposits increased by £5 billion, or 4 per cent, to £131 billion, largely as a result of good growth in customer savings accounts in the retail business.

Group net interest income, on a comparable basis, increased by £423 million, or 8 per cent, compared with last year. Good levels of consumer lending growth increased average personal lending and credit card balances by £1.7 billion and average mortgage balances by £7.8 billion. Customer lending growth in our Business Banking and Corporate Markets franchises increased average interest-earning assets by £4.4 billion. The banking net interest margin (page 34, note 8) decreased by 6 basis points to 2.78 per cent. Much of this margin decline has been caused by the impact of lower earnings on the Group's capital and other interest-free liabilities and, excluding this funding impact, the margin was broadly stable year-on-year. The banking net interest margin in the second half of 2005 actually increased by 5 basis points to 2.80 per cent, compared with 2.75 per cent in the first half of 2005.

Other income, net of insurance claims, on a comparable basis and excluding the strengthening of reserves for mortality, increased by £260 million, or 6 per cent, to £4,659 million. Fees and commissions receivable increased by 9 per cent to £3,315 million as a result of higher income from the strong volume growth in current account fees and an increase in fees from large corporate business and asset based lending, as a result of growing customer transaction volumes.

Operating expenses continued to be tightly controlled and on a comparable basis increased by 5 per cent to £5,506 million (page 36, note 11). Excluding the impact of customer redress provisions, operating expenses increased by only 4 per cent. Significant improvements continue to be made in processing and operational efficiency and we have continued to expand our programme of offshoring a number of our processing and back office operations to India. Staff numbers reduced by 3,652 to 69,778 during the year, improving Group productivity. As a result of this constant focus on day-to-day operating cost control, the cost:income ratio, excluding customer redress provisions and the strengthening of reserves for mortality, improved to 52.7 per cent, from 54.3 per cent in 2004.

Whilst the Group has demonstrated strong cost control during 2005, we have also identified a number of key initiatives which collectively have the potential to significantly improve our cost:income ratio over the next few years whilst also improving operational efficiency and speed of execution. These self-funding initiatives will capture significant groupwide synergies and fall broadly into three categories:-

- improve our operational efficiency and management accountabilities through organisational redesign and process re-engineering;
- consolidating similar back-office operations and achieving cost reductions through standardising the way we operate and manage back-office processes across the Group; and
- transforming groupwide procurement to enhance the way we manage suppliers and achieve the most efficient pricing available.

This programme of efficiency improvement initiatives is expected to deliver gross benefits of £275 million per annum for an initial investment of less than £200 million, of which £40 million was charged in 2005. This will continue to improve the Group's cost:income ratio whilst allowing substantial scope to re-invest in the business. From 2007 onwards we expect the Group's profit before tax to be increased by approximately £100-£150 million per annum as a result of this programme of cost saving initiatives.

Overall asset quality remains satisfactory. On a comparable basis, impairment losses on loans and advances increased by 21 per cent to £1,090 million. A substantial reduction in impairment losses in the corporate franchise was more than offset by higher retail impairments, resulting from a combination of volume related asset growth in personal loan and credit card lending, the absence of a provision release in the mortgage business which totalled £39 million in 2004 and more customers, with higher levels of indebtedness and therefore lower levels of recovery, experiencing repayment difficulties. As a result of tightening our credit underwriting criteria during 2005, the quality of new business written during 2005 is good. Our impairment charge expressed as a percentage of average lending increased to 0.66 per cent, compared to 0.61 per cent in 2004 (page 37, note 13). On a statutory basis, impaired assets totalled £4,122 million, compared with £3,515 million at 1 January 2005, representing 2.3 per cent of total lending, up from 2.1 per cent at 1 January 2005, but unchanged from 30 June 2005.

We expect a further deterioration in the retail credit environment in the first half of 2006 however, as a result of the improved quality of new business written in the last 12 months, we expect greater stability in the second half of 2006. In Wholesale Markets, impairment levels have remained low throughout 2005 and the outlook for corporate lending remains good, although we expect a return to more normal levels of impairment over time.

Following the publication of revised annuitant mortality tables and consultation on future mortality projections by the actuarial profession's Mortality Committee, the Group has reviewed the annuitant mortality assumptions used in its life assurance businesses. While the actuarial profession is still consulting on the adoption of the new projections, the Group has decided to strengthen its mortality related reserves by £155 million (£110 million on a comparable basis).

Following the introduction of time-barring, and the consequent increase in claims, the Group has also reviewed the estimated cost of redress payments to customers, principally relating to past sales of mortgage endowment policies through the branch network. This has led to an increased provision for customer redress of £150 million.

Our capital position remains robust. At the end of December 2005, the total capital ratio was 10.9 per cent and the tier 1 capital ratio was 7.9 per cent. During the year, risk-weighted assets increased by 10 per cent to £144.9 billion, reflecting good levels of growth in consumer lending and mortgages and strong growth in our Corporate Markets businesses. We continue to plan for risk-weighted asset growth of mid-to-high single digits over the next few years, and expected profit retentions remain sufficient to support this level of risk-weighted asset growth. We are also significantly improving our balance sheet management and capital efficiency, moving from a 'buy and hold' model towards an 'origination and distribution' framework. In this context we are planning to initiate a rolling residential mortgage securitisation programme in the second half of 2006.

Scottish Widows continues to be one of the most strongly capitalised life assurance companies in the UK. The working capital ratio of the Scottish Widows Long-Term Fund remained strong at an estimated 17.8 per cent at the end of December 2005. The required risk capital margin was covered over 11 times. In March 2005, Scottish Widows paid a 2004 dividend of £200 million to Lloyds TSB reflecting the start of an expected regular dividend stream, and in December 2005 a further £800 million of surplus capital was repatriated to the Group. In March 2006, a second annual dividend will be paid to the Group. We are continuing to examine opportunities to improve our capital efficiency and have work in progress that we believe will allow Scottish Widows to repatriate further surplus capital to the Group.

The Group's pension schemes accounting deficit totalled £2,910 million at the end of December 2005 (£2,037 million net of deferred tax). During 2005 the Group made additional voluntary contributions of £220 million to these schemes to be applied in reduction of the schemes' deficit. The Group is currently in the process of finalising its triennial actuarial valuation of the schemes and, as part of this process, is also considering other methods of addressing the schemes' deficit.

The board has decided to maintain the final dividend at 23.5p per share, to make a total for the year of 34.2p. This represents a dividend yield for shareholders of 7 per cent, calculated using the 31 December 2005 share price of 488.5p.

Helen A Weir
Group Finance Director

SEGMENTAL ANALYSIS

Year ended 31 December 2005	UK Retail Banking £m	General Insurance £m	Life, pensions, OEICs and asset management £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items £m	Total £m
Comparable basis							
Net interest income	3,307	41	370	411	2,165	(370)	5,513
Other income	1,811	525	15,295	15,820	1,710	2	19,343
Total income	5,118	566	15,665	16,231	3,875	(368)	24,856
Insurance claims	-	(197)	(14,597)	(14,794)	-	-	(14,794)
Total income, net of insurance claims	5,118	369	1,068	1,437	3,875	(368)	10,062
Operating expenses	(2,682)	(160)	(479)	(639)	(2,186)	1	(5,506)
Trading surplus (deficit)	2,436	209	589	798	1,689	(367)	4,556
Impairment losses on loans and advances	(905)	-	-	-	(185)	-	(1,090)
Profit (loss) before tax*	1,531	209	589	798	1,504	(367)	3,466
Volatility							
- Banking	-	-	-	-	-	(124)	(124)
- Insurance	-	28	410	438	-	-	438
- Policyholder interests	-	-	311	311	-	-	311
Other IFRS adjustments applied from 1 January 2005	(213)	-	(73)	(73)	20	(55)	(321)
Profit (loss) on sale and closure of businesses	76	-	-	-	(6)	(20)	50
Profit (loss) before tax	1,394	237	1,237	1,474	1,518	(566)	3,820

Year ended 31 December 2004	UK Retail Banking £m	General Insurance £m	Life, pensions, OEICs and asset management £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items £m	Total £m
Comparable basis							
Net interest income	3,228	44	239	283	1,986	(407)	5,090
Other income	1,696	496	10,240	10,736	1,544	45	14,021
Total income	4,924	540	10,479	11,019	3,530	(362)	19,111
Insurance claims	-	(214)	(9,408)	(9,622)	-	-	(9,622)
Total income, net of insurance claims	4,924	326	1,071	1,397	3,530	(362)	9,489
Operating expenses	(2,609)	(154)	(468)	(622)	(2,047)	12	(5,266)
Trading surplus (deficit)	2,315	172	603	775	1,483	(350)	4,223
Impairment losses on loans and advances	(676)	-	3	3	(230)	-	(903)
Profit (loss) before tax*	1,639	172	606	778	1,253	(350)	3,320
Volatility							
- Insurance	-	8	160	168	-	-	168
- Policyholder interests	-	-	(30)	(30)	-	-	(30)
Loss on sale of businesses	-	-	-	-	(21)	-	(21)
Trading results of discontinued operations	-	-	-	-	40	-	40
Profit (loss) before tax	1,639	180	736	916	1,272	(350)	3,477

*comparable basis

DIVISIONAL PERFORMANCE

UK RETAIL BANKING

Comparable basis	2005	2004	<i>Change</i>
	£m	£m	%
Net interest income	3,307	3,228	2
Other income	1,811	1,696	7
Total income	5,118	4,924	4
Operating expenses	(2,532)	(2,509)	1
Trading surplus	2,586	2,415	7
Impairment losses on loans and advances	(905)	(676)	34
Profit before tax, before provisions for customer redress	1,681	1,739	(3)
Provisions for customer redress	(150)	(100)	
Profit before tax	1,531	1,639	(7)
Cost:income ratio, before provisions for customer redress	49.5%	51.0%	
	31 December	1 January	
	2005	2005	
Total assets	£103.9bn	£96.5bn	8
Total risk-weighted assets	£60.6bn	£57.2bn	6

Key achievements

- Satisfactory income growth in a more challenging consumer environment, with good growth in income per customer and a 28 per cent increase in target customer current account recruitment.
- Tight cost control, with a clear focus on improving efficiency. Staff reductions of 2,713 during the year resulted in lower costs in the second half of the year.
- Positive jaws with income growth of 4 per cent exceeding cost growth, excluding customer redress provisions, of 1 per cent.
- Good and broad customer balance growth:
 - Group mortgage balances increased by 10 per cent to £88.4 billion.
 - Credit card balances, adjusted to exclude the effect of the Goldfish disposal, increased by 9 per cent to £7.2 billion.
 - Personal loan balances increased by 3 per cent to £11.0 billion.
 - Customer deposit balances increased by 7 per cent to £71.0 billion.
- Customer satisfaction levels reached their highest level in recent years during 2005.
- Higher impairment charge reflecting marketwide deterioration in retail credit quality as a result of more customers, with higher levels of indebtedness, experiencing repayment difficulties.

UK RETAIL BANKING (continued)

Profit before tax, on a comparable basis, from **UK Retail Banking** decreased by £108 million, or 7 per cent, to £1,531 million, reflecting good levels of business growth offset by higher impairment losses and customer redress provisions. Increased income from continued growth in the Group's consumer lending and customer deposit portfolios and improved current account fee income was offset by a higher level of impairment losses in the Group's unsecured lending portfolios. Total income increased by 4 per cent, notwithstanding a decrease in commissions from creditor insurance, whilst cost growth, excluding customer redress provisions, was 1 per cent. Other income increased by 7 per cent, and now represents 35 per cent of total income.

During 2005, good levels of growth were achieved in all key product areas. Gross new mortgage lending for the Group totalled £26.0 billion (2004: £26.3 billion). Net new lending totalled £8.3 billion resulting in a market share of net new lending of 9.1 per cent, and mortgage balances outstanding increased by 10 per cent to £88.4 billion. Personal loan balances outstanding at the year-end were £11.0 billion, an increase of 3 per cent and credit card balances totalled £7.2 billion, an increase of 9 per cent, adjusting to exclude the effect of the Goldfish disposal. Credit balances on current accounts and savings and investment accounts increased by 7 per cent. Income per customer continued to improve during the year.

Customers are increasingly choosing to buy through direct channels as well as through our branches. Towards the end of 2005 we saw improved levels of growth in branch based sales, particularly current and savings accounts, whilst continued investment in our direct channel capabilities has supported good levels of business growth. Sales through direct channels represent half of total sales and, during 2005, internet product sales increased by 28 per cent and product sales via the telephone increased by 39 per cent. Our internet bank now has 3.7 million registered users and over 470 million transactions were processed through internet banking, an increase of 40 per cent.

Lloyds TSB remains a leader in the added value current account market, with over 4 million customers. Target customer current account recruitment increased by 28 per cent, compared with 2004.

Operating expenses remained well controlled and, excluding customer redress provisions, increased by only £23 million, or 1 per cent. This included higher levels of restructuring costs as we continue to rationalise back office operations to improve efficiency. Levels of customer service and satisfaction have also continued to improve.

Impairment losses on loans and advances increased by £229 million, or 34 per cent, to £905 million, reflecting a combination of volume related asset growth in personal loan and credit card lending, the absence of a mortgage provision release which in 2004 totalled £39 million, and the impact of more customers, with higher levels of indebtedness, experiencing repayment difficulties. The impairment charge as a percentage of average lending for personal loans and overdrafts increased to 4.76 per cent, from 4.20 per cent in 2004, while the charge in the credit card portfolio increased to 4.01 per cent, from 3.42 per cent in 2004. In the mortgage business the Group continued to experience a low level of losses and as a result the mortgage impairment charge was £13 million. Overall, the provisions charge as a percentage of average lending, on a comparable basis, was 0.92 per cent, compared to 0.75 per cent in 2004.

UK RETAIL BANKING (continued)

Within personal loans, key initiatives have been the increased use of behavioural and risk-based pricing, and leveraging our customer insight capabilities to enable the Group to deliver more competitive pricing to better quality customers within our existing customer base. Over 99 per cent of new personal loans and 77 per cent of new credit cards sold during 2005 were to existing customers, where the Group has a better understanding of an individual customer's total financial position. Dynamic delinquency measures remain in line with our expectations given the slowdown in consumer spending.

Cheltenham & Gloucester (C&G) continued to focus on prime lending market segments during 2005. The average indexed loan-to-value ratio on the C&G mortgage portfolio was 43 per cent (31 December 2004: 41 per cent), and the average loan-to-value ratio for C&G new mortgages and further advances written during 2005 was 64 per cent (2004: 62 per cent). At 31 December 2005, 95 per cent of C&G mortgage balances had an indexed loan-to-value ratio of less than 85 per cent (31 December 2004: 94 per cent) and only 0.6 per cent of balances had an indexed loan-to-value ratio in excess of 95 per cent (31 December 2004: 0.3 per cent).

INSURANCE AND INVESTMENTS

	2005	2004	Change
Comparable basis	£m	£m	%
Net interest income	411	283	
Other income	<u>15,820</u>	<u>10,736</u>	
Total income	16,231	11,019	
Insurance claims	<u>(14,684)</u>	<u>(9,622)</u>	
Total income, net of insurance claims	1,547	1,397	11
Operating expenses	<u>(639)</u>	<u>(610)</u>	5
Trading surplus	908	787	15
Impairment losses on loans and advances	-	3	
Profit before tax, excluding customer redress provisions and strengthening of reserves for mortality	<u>908</u>	<u>790</u>	15
Provisions for customer redress	-	(12)	
Strengthening of reserves for mortality	(110)	-	
Profit before tax	798	778	3
Profit before tax analysis			
Life, pensions and OEICs*	683	610	12
General insurance	209	172	22
Scottish Widows Investment Partnership	<u>16</u>	<u>8</u>	100
Profit before tax*	<u>908</u>	<u>790</u>	15

*excluding customer redress provisions and strengthening of reserves for mortality

Key achievements

- Significantly improved profit performance. Profit before tax, on a comparable basis and excluding customer redress provisions and a significant strengthening of reserves for mortality, increased by 15 per cent to £908 million.
- Strong, and improving, sales performance. 21 per cent increase in Scottish Widows' new business weighted sales, increasing the Group's market share of life, pensions and long-term savings to an estimated 6.2 per cent, from 5.7 per cent.
- Excellent progress in increasing bancassurance sales, particularly in the second half of 2005 when sales grew by 23 per cent, compared with the second half of 2004.
- Improved profitability. New business contribution in Scottish Widows increased by 19 per cent. Life and pensions new business margin increased to 29.7 per cent.
- Good progress with General Insurance's strategy to develop its manufacturing business and increase focus on direct channels. Strong focus on improving underwriting capability, supply chain efficiency and claims management led to profit before tax, on a comparable basis, increasing by 22 per cent.
- Strong capital position maintained. During 2005, Scottish Widows Group repatriated £1 billion surplus capital to the Group.

INSURANCE AND INVESTMENTS (continued)

Profit before tax, on a comparable basis, increased by £20 million, or 3 per cent to £798 million despite a significant strengthening of reserves for mortality which, on a comparable basis, totalled £110 million.

	2005	2004	<i>Change</i>
	£m	£m	%
Scottish Widows - profit before tax analysis*			
Life and pensions			
New business contribution	224	188	19
Existing business	181	181	-
Investment earnings - normalised	196	167	17
Profit before tax	601	536	12
OEICs			
Profit before tax	82	74	11
Profit before tax (life, pensions and OEICs)	683	610	12
New business margin (life and pensions)	29.7%	28.6%	

*comparable basis, excluding customer redress provisions and the strengthening of reserves for mortality

Profit before tax, excluding customer redress provisions and the strengthening of reserves for mortality, from the Group's life, pensions and OEICs business increased by 12 per cent to £683 million. The Group's strategy to improve its returns by focusing on more profitable, less capital intensive, business whilst constantly seeking to improve process and distribution efficiency has led to a 19 per cent increase in new business contribution to £224 million. As a result of this improved capital efficiency and strong sales of pensions and single premium investments, the life and pensions new business margin increased to 29.7 per cent (2004: 28.6 per cent).

INSURANCE AND INVESTMENTS (continued)

	2005	2004	<i>Change</i>
Weighted sales (regular + ¹/₁₀ single)	£m	£m	%
Life and pensions	754	657	15
OEICs	148	86	72
Life, pensions and OEICs	902	743	21
Bancassurance	274	242	13
Independent financial advisers	562	432	30
Direct	66	69	(4)
Life, pensions and OEICs	902	743	21

Overall, weighted sales in 2005 increased by 21 per cent to £902 million and as a result the Group's life, pensions and investments market share increased significantly to an estimated 6.2 per cent, compared with 5.7 per cent in 2004. During 2005 the Group launched a new group pensions platform which supported the strong growth in sales during the year. Scottish Widows is now also one of the largest UK providers of individual pensions. IFA sales grew 30 per cent to £562 million, supported by significant product and service enhancements in pensions and investments, and our estimated market share of the IFA market improved to 6.8 per cent, from 5.9 per cent in 2004. Bancassurance sales were 13 per cent higher at £274 million. Weighted sales of OEICs were 72 per cent higher, largely through the branch network and to Lloyds TSB private banking clients. Our estimated market share through the bancassurance and direct channels increased to an estimated 5.5 per cent, from 5.4 per cent in 2004.

In January 2006, Scottish Widows announced a new partnership with Virgin to market life assurance and a new cancer insurance product under the Virgin Money brand. This supports Scottish Widows' long-term strategy to secure a greater breadth of distribution for its products.

Scottish Widows Investment Partnership

Pre-tax profit, on a comparable basis, from Scottish Widows Investment Partnership (SWIP) increased to £16 million, compared with £8 million in 2004, reflecting improved market performance and increased revenues from new business. SWIP won £4.4 billion of gross new business in 2005, an increase of 110 per cent on 2004, and its assets under management increased by 16 per cent to £95 billion. Overall investment performance during 2005 has continued to improve. Groupwide funds under management increased by 12 per cent to £121 billion.

INSURANCE AND INVESTMENTS (continued)**General insurance**

	2005	2004	<i>Change</i>
Comparable basis	£m	£m	%
Commission receivable	681	672	1
Commission payable	(695)	(750)	(7)
Underwriting income (net of reinsurance)	562	554	1
Other income	18	64	
Net operating income	566	540	5
Claims paid on insurance contracts (net of reinsurance)	(197)	(214)	(8)
Operating income, net of claims	369	326	13
Operating expenses	(160)	(154)	4
Profit before tax	209	172	22
Claims ratio	34%	37%	
Combined ratio	80.8%	83.2%	

Profit before tax, on a comparable basis, from our general insurance operations increased by £37 million, or 22 per cent, to £209 million. Operating income, net of claims, increased by 13 per cent compared with cost growth of 4 per cent. Good progress continues to be made in implementing new platforms for underwriting and claims processes.

Net operating income improved by £26 million as growth in income from home and motor business was partly offset by reduced broking commission from loan protection insurance, reflecting the slowdown in unsecured consumer lending growth during 2005 (page 35, note 10) and lower health premiums following the transfer of the Group's medical insurance business to BUPA during 2004. Good progress has also been made in building the Group's corporate partnering capability with a new distribution agreement secured with MORE TH>N during 2005.

Our strategy to increase investment in more cost efficient distribution through direct channels continues to generate earnings momentum with gross written premiums from new policies sold through direct channels increasing by 9 per cent in 2005. This reflected strong growth in levels of new business through the internet, where home insurance sales increased by 39 per cent and motor insurance sales by 12 per cent. New motor insurance sales by telephone increased by 15 per cent. The business has also delivered substantial improvements in business retention reflecting higher levels of customer satisfaction and improvements in operational efficiency.

Claims fell by £17 million to £197 million, and the claims ratio improved to 34 per cent (2004: 37 per cent), reflecting good progress in re-engineering the claims process and improvements in the cost effectiveness of the claims supply chain, as well as lower health claims as a result of the transfer of the Group's private medical insurance business to BUPA. As a result, the combined ratio relating to the underwriting business improved to 80.8 per cent in 2005 (2004: 83.2 per cent).

WHOLESALE AND INTERNATIONAL BANKING

	2005	2004	Change
	£m	£m	%
Comparable basis			
Net interest income	2,165	1,986	9
Other income	1,710	1,544	11
Total income	3,875	3,530	10
Operating expenses	(2,186)	(2,047)	7
Trading surplus	1,689	1,483	14
Impairment losses on loans and advances	(185)	(230)	(20)
Profit before tax	1,504	1,253	20
Cost:income ratio	56.4%	58.0%	
	31 December	1 January	
	2005	2005	
Total assets	£124.0bn	£123.8bn	-
Total risk-weighted assets	£80.1bn	£71.0bn	13
	2005	2004	
Profit before tax by business unit	£m	£m	
Corporate Markets	958	732	31
Business Banking	206	153	35
Asset Finance	219	240	(9)
International Banking	133	120	11
Other	(12)	8	
	1,504	1,253	20

Key achievements

- Excellent profit growth. Profit before tax, on a comparable basis, increased by 20 per cent to £1,504 million.
- Strong income growth, up 10 per cent, as Corporate Markets strategy begins to deliver results. Income momentum improved during the year.
- Positive jaws. Income growth of 10 per cent exceeded cost growth of 7 per cent. Continued investment in people and systems to support new product capabilities.
- Low levels of impairment as a result of high corporate liquidity and a continued strong level of recoveries. Impairment charge reduced by 20 per cent.
- Good progress in delivering the strategy to build an integrated wholesale bank for corporate markets. 17 per cent increase in Corporate Markets trading surplus, and 31 per cent increase in profit before tax.
- Good levels of franchise growth in Business Banking. 24 per cent growth in trading surplus, and 35 per cent growth in profit before tax.
- Good new business growth in Asset Finance with trading surplus up 12 per cent. However, higher levels of retail impairment resulted in a fall of 9 per cent in profit before tax.
- Improved post-tax return on risk-weighted assets from 1.41 per cent to 1.50 per cent.

WHOLESALE AND INTERNATIONAL BANKING (continued)

Wholesale and International Banking profit before tax, on a comparable basis, increased by £251 million, or 20 per cent, to £1,504 million. Income growth of 10 per cent exceeded cost growth of 7 per cent, leading to a reduction in the cost:income ratio to 56.4 per cent. Trading surplus increased by £206 million or 14 per cent, to £1,689 million. There was strong profit growth in Corporate Markets, Business Banking and International Banking while Asset Finance saw strong trading surplus growth before higher impairment losses. Overall growth in profit was ahead of growth in risk-weighted assets and has led to an increase in the post-tax return on average risk weighted assets to 1.50 per cent, compared to 1.41 per cent in 2004.

Net interest income increased by £179 million, or 9 per cent, reflecting higher income from strong growth in customer lending in Corporate Markets, Business Banking and Asset Finance. Other income increased by £166 million, or 11 per cent. Strong growth in structured finance transactions, increased fee income from relationship business products and higher levels of cross-selling activity led to an increase of 18 per cent in other income from Corporate Markets. In addition, other income benefited from the impact of motor dealership acquisitions in Asset Finance and sustained customer growth in Business Banking. Costs were 7 per cent higher at £2,186 million, reflecting higher staff costs as a result of our increased investment in people, as we continue to build up our Corporate Markets product capability and expertise, and the impact of the motor dealership acquisitions within Asset Finance.

The charge for impairment losses on loans and advances decreased by £45 million, or 20 per cent, to £185 million, as a result of lower provisions and a good level of recoveries from the corporate lending portfolio, partially offset by higher charges in the Asset Finance business.

In Corporate Markets, profit before tax grew by 31 per cent, from £732 million in 2004, to £958 million, driven by a combination of higher income and a reduction in impairment losses. Income increased by 15 per cent, including higher levels of cross-selling income which increased by 27 per cent reflecting our increased customer focus and integration across the business. Income growth was strong in both relationship and transactional business. Customer relationships continue to be deepened, and there has been considerable investment in the business to broaden origination, distribution and portfolio management capabilities. This has included the build up of new credit structuring and loan trading teams and the launch of a variety of new products.

Profit before tax in Business Banking grew by £53 million, or 35 per cent, to £206 million reflecting our strategy to move relationship managers back into branches and closer to our customers. There was good growth in customer income, tight control of costs and service and operational improvements. This supported a 4 percentage point reduction in the cost:income ratio for the business. Customer deposits rose by 4 per cent to £10.7 billion and customer lending increased by 11 per cent to £8.0 billion. Business Banking continued to develop and grow its customer franchise, with net customer recruitment of some 13,350 during 2005, reflecting a market leading position in both the overall and start-up markets. Over 18,000 customers transferred their banking arrangements to the Group from other banking providers.

WHOLESALE AND INTERNATIONAL BANKING (continued)

Profit before tax in Asset Finance decreased by 9 per cent to £219 million, reflecting higher impairment losses, which offset the continued development of the motor and leisure, and contract hire businesses. Income increased by £71 million, or 8 per cent, leading to a 12 per cent growth in the trading surplus. New business has increased by 7 per cent in the personal and retail finance business. Lloyds TSB Commercial Finance has continued to grow strongly with a 19 per cent market share, measured by client numbers, 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 18 per cent.

In International Banking, profit before tax increased by £13 million, or 11 per cent, to £133 million. This reflects a reduction in costs and lower impairment provisions which offset a £12 million, or 3 per cent, reduction in income as a result of lower earnings on retained capital following the repatriation of offshore capital to the Group.

CONSOLIDATED INCOME STATEMENT - STATUTORY

	2005	2004
	£m	£m
Interest and similar income	12,589	10,707
Interest and similar expense	<u>(6,918)</u>	<u>(5,597)</u>
Net interest income	5,671	5,110
Fees and commissions income	<u>2,990</u>	<u>3,054</u>
Fees and commissions expense	<u>(842)</u>	<u>(844)</u>
Net fees and commissions income	2,148	2,210
Net trading income	9,298	5,036
Insurance premium income	4,469	6,070
Other operating income	<u>1,140</u>	<u>857</u>
Other income	17,055	14,173
Total income	22,726	19,283
Insurance claims	<u>(12,186)</u>	<u>(9,622)</u>
Total income, net of insurance claims	10,540	9,661
Operating expenses	<u>(5,471)</u>	<u>(5,297)</u>
Trading surplus	5,069	4,364
Impairment losses on loans and advances	<u>(1,299)</u>	<u>(866)</u>
Profit (loss) on sale and closure of businesses	<u>50</u>	<u>(21)</u>
Profit before tax	3,820	3,477
Taxation	<u>(1,265)</u>	<u>(1,018)</u>
Profit for the year	2,555	2,459
Profit attributable to minority interests	62	67
Profit attributable to equity shareholders	<u>2,493</u>	<u>2,392</u>
Profit for the year	2,555	2,459
Basic earnings per share	44.6p	42.8p
Diluted earnings per share	44.2p	42.5p
Total dividend per share for the year*	34.2p	34.2p
Total dividend for the year*	£1,915m	£1,914m

*total dividend for the year represents the interim dividend paid in October 2005 and the final dividend which will be paid and accounted for in May 2006.

CONSOLIDATED BALANCE SHEET – STATUTORY

	31 December 2005 £m	1 January 2005 £m	31 December 2004 £m
Assets			
Cash and balances at central banks	1,156	1,078	1,078
Items in course of collection from banks	1,310	1,462	1,462
Treasury bills and other eligible bills			92
Trading securities and other financial assets at fair value through profit or loss	60,374	56,840	
Derivative financial instruments	5,878	9,263	
Loans and advances to banks	31,655	31,851	31,848
Loans and advances to customers	174,944	161,162	155,318
Debt securities			43,485
Equity shares			27,310
Available-for-sale financial assets	14,940	14,593	
Investment property	4,260	3,776	3,776
Goodwill	2,373	2,469	2,469
Value of in-force business	2,922	2,760	4,363
Other intangible assets	50	28	28
Tangible fixed assets	4,291	4,180	4,180
Other assets	5,601	3,392	9,013
Total assets	309,754	292,854	284,422
Equity and liabilities			
Deposits from banks	31,527	39,723	39,723
Customer accounts	131,070	126,349	119,811
Items in course of transmission to banks	658	631	631
Derivative financial instruments and other trading liabilities	6,396	10,334	
Debt securities in issue	39,346	28,728	28,770
Liabilities arising from insurance contracts and participating investment contracts	40,550	36,725	52,289
Liabilities arising from non-participating investment contracts	21,839	16,361	
Unallocated surplus within insurance businesses	518	426	1,362
Other liabilities	10,395	8,526	14,916
Retirement benefit obligations	2,910	3,075	3,075
Deferred tax liabilities	1,145	925	1,704
Other provisions	368	270	211
Subordinated liabilities	12,402	11,211	10,252
Total liabilities	299,124	283,284	272,744
Equity			
Share capital	1,420	1,419	1,419
Share premium account	1,170	1,145	1,145
Other reserves	383	371	343
Retained profits	7,222	6,554	8,140
Shareholders' equity	10,195	9,489	11,047
Minority interests	435	81	631
Total equity	10,630	9,570	11,678
Total equity and liabilities	309,754	292,854	284,422

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – STATUTORY

	2005	2004
	£m	£m
Net cash (used in) provided by operations	(331)	12,214
Cash flows from investing activities		
Purchase of fixed asset investments		(10,088)
Proceeds from sale and maturity of fixed asset investments		9,732
Purchase of available-for-sale investments	(10,108)	
Proceeds from sale and maturity of available-for-sale investments	10,266	
Purchase of fixed assets	(1,843)	(1,565)
Proceeds from sale of fixed assets	1,073	698
Acquisition of businesses, net of cash acquired	(27)	(16)
Disposal of businesses, net of cash disposed	(4)	(25)
Net cash used in investing activities	(643)	(1,264)
Cash flows from financing activities		
Dividends paid to equity shareholders	(1,914)	(1,913)
Dividends paid to minority interests	(37)	(68)
Proceeds from issue of subordinated liabilities	1,361	699
Proceeds from issue of ordinary shares and transactions in own shares held in respect of employee share schemes	26	11
Repayment of subordinated liabilities (loan capital)	(232)	(764)
Capital element of finance lease rental payments	(2)	(1)
Change in minority investment in subsidiaries	329	(151)
Net cash used in financing activities	(469)	(2,187)
Change in cash and cash equivalents	(1,443)	8,763
Cash and cash equivalents at beginning of year	28,196	19,433
Cash and cash equivalents at end of year	26,753	28,196

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – STATUTORY

	Attributable to equity shareholders				Total £m
	Share capital and premium £m	Other reserves £m	Retained profits £m	Minority interests £m	
Balance at 1 January 2004	2,554	343	7,646	782	11,325
Currency translation differences	-	-	(12)	1	(11)
Profit for the period	-	-	2,392	67	2,459
Total recognised income for the period	-	-	2,380	68	2,448
Dividends	-	-	(1,913)	(68)	(1,981)
Purchase/sale of treasury shares	-	-	8	-	8
Employee share option schemes:					
- value of employee services	-	-	19	-	19
- proceeds from shares issued	10	-	-	-	10
Changes in minority interests	-	-	-	(151)	(151)
Balance at 31 December 2004	2,564	343	8,140	631	11,678
Adjustments on transition to IAS 32, IAS 39 and IFRS 4	-	28	(1,586)	(550)	(2,108)
Restated balance at 1 January 2005	2,564	371	6,554	81	9,570
Movement in available-for-sale investments, net of tax	-	8	-	-	8
Movement in cash flow hedges, net of tax	-	11	-	-	11
Currency translation differences	-	(7)	24	-	17
Net income recognised directly in equity	-	12	24	-	36
Profit for the period	-	-	2,493	62	2,555
Total recognised income for the period	-	12	2,517	62	2,591
Dividends	-	-	(1,914)	(37)	(1,951)
Purchase/sale of treasury shares	-	-	18	-	18
Employee share option schemes:					
- value of employee services	-	-	47	-	47
- proceeds from shares issued	26	-	-	-	26
Changes in minority interests	-	-	-	329	329
Balance at 31 December 2005	2,590	383	7,222	435	10,630

SUMMARISED SEGMENTAL ANALYSIS – STATUTORY

Year ended 31 December 2005	UK	General	Life,	Insurance	Wholesale	Central	Total
	Retail		pensions,				
	Banking	Insurance	OEICs	and	International	items	
	£m	£m	and asset	Investments	Banking	£m	£m
			management	£m	£m		
Net interest income	3,521	23	372	395	2,265	(510)	5,671
Other income	1,605	571	13,288	13,859	1,628	(37)	17,055
Total income	5,126	594	13,660	14,254	3,893	(547)	22,726
Insurance claims	-	(197)	(11,989)	(12,186)	-	-	(12,186)
Total income, net of insurance claims	5,126	397	1,671	2,068	3,893	(547)	10,540
Operating expenses	(2,697)	(160)	(434)	(594)	(2,181)	1	(5,471)
Trading surplus (deficit)	2,429	237	1,237	1,474	1,712	(546)	5,069
Impairment losses on loans and advances	(1,111)	-	-	-	(188)	-	(1,299)
Profit (loss) on sale and closure of businesses	76	-	-	-	(6)	(20)	50
Profit (loss) before tax	1,394	237	1,237	1,474	1,518	(566)	3,820

Year ended 31 December 2004	UK	General	Life,	Insurance	Wholesale	Central	Total
	Retail		pensions,				
	Banking	Insurance	OEICs	and	International	items	
	£m	£m	and asset	Investments	Banking	£m	£m
			management	£m	£m		
Net interest income	3,228	44	239	283	2,006	(407)	5,110
Other income	1,696	504	10,370	10,874	1,558	45	14,173
Total income	4,924	548	10,609	11,157	3,564	(362)	19,283
Insurance claims	-	(214)	(9,408)	(9,622)	-	-	(9,622)
Total income, net of insurance claims	4,924	334	1,201	1,535	3,564	(362)	9,661
Operating expenses	(2,609)	(154)	(468)	(622)	(2,078)	12	(5,297)
Trading surplus (deficit)	2,315	180	733	913	1,486	(350)	4,364
Impairment losses on loans and advances	(676)	-	3	3	(193)	-	(866)
Loss on sale of businesses	-	-	-	-	(21)	-	(21)
Profit (loss) before tax	1,639	180	736	916	1,272	(350)	3,477

NOTES

1. Accounting policies and presentation

Except as noted below, the accounting policies adopted in the preparation of the 2005 results are unchanged from those disclosed in the Group's announcement setting out the effects of the implementation of International Financial Reporting Standards ('IFRS') and Financial Reporting Standard 27 ('FRS 27'), published on 27 May 2005. Copies of this announcement are available on the Group's website at www.lloydstsb.com/investorrelations.

The Group recognises as an asset the value of in-force life assurance business in respect of life assurance contracts and participating investment contracts, representing the net present value of future profits expected to accrue to the shareholder from these contracts. In the Group's first IFRS results for the six months ended 30 June 2005, the asset in the consolidated balance sheet and movements in the asset recognised in the income statement were calculated and disclosed on a net of tax basis. Since that time accounting practice has continued to evolve and a consensus has emerged that the value of in-force business should be presented gross of tax. The Group has therefore changed its accounting policy to present movements in the value of in-force business gross of attributable tax with a consequential adjustment to the tax charge; there is no effect upon the Group's earnings or shareholders' equity. Comparative figures have been restated accordingly.

Comparative figures have also been restated to allow for deferred tax on properties acquired as part of a business combination and for the reclassification of certain balance sheet items following revised interpretations of the requirements of IFRS. This has resulted in a reduction in shareholders' equity although there is no significant impact upon the Group's income statement.

The effect of these changes is set out below.

Year ended 31 December 2004	Previous basis £m	Value of in-force business £m	Other adjustments £m	Restated £m
Profit before volatility	3,348	(9)	-	3,339
Volatility	147	(9)	-	138
Profit before tax	3,495	(18)	-	3,477
Taxation	(1,036)	18	-	(1,018)
Profit for the year	2,459	-	-	2,459
At 1 January 2005				
Total assets	291,997	870	(13)	292,854
Shareholders' equity	9,572	-	(83)	9,489

1. Accounting policies and presentation (continued)

Half-year ended 30 June 2005	Previous basis £m	Value of in-force business £m	Other adjustments £m	Restated £m
Profit before volatility and other IFRS adjustments	1,723	45	-	1,768
Volatility	77	10	-	87
Other IFRS adjustments	<u>(124)</u>	<u>(18)</u>	<u>-</u>	<u>(142)</u>
Profit before tax	1,676	37	-	1,713
Taxation	<u>(472)</u>	<u>(37)</u>	<u>-</u>	<u>(509)</u>
Profit for the period	<u>1,204</u>	<u>-</u>	<u>-</u>	<u>1,204</u>
At 30 June 2005				
Total assets	305,212	907	(13)	306,106
Shareholders' equity	9,475	-	(83)	9,392
Year ended 31 December 2005				
	Previous basis £m	Value of in-force business £m	Other adjustments £m	Restated £m
Profit before volatility and other IFRS adjustments	3,492	24	-	3,516
Volatility	548	77	-	625
Other IFRS adjustments	<u>(284)</u>	<u>(37)</u>	<u>-</u>	<u>(321)</u>
Profit before tax	3,756	64	-	3,820
Taxation	<u>(1,201)</u>	<u>(64)</u>	<u>-</u>	<u>(1,265)</u>
Profit for the year	<u>2,555</u>	<u>-</u>	<u>-</u>	<u>2,555</u>
At 31 December 2005				
Total assets	308,820	934	-	309,754
Shareholders' equity	10,259	-	(64)	10,195

Comparative information for 2004 has been restated to take into account the requirements of all the standards except for IAS 32, IAS 39 and IFRS 4 (including FRS 27). As permitted by IFRS, these standards have been implemented with effect from 1 January 2005 and the opening balance sheet at this date has been adjusted accordingly.

2. Basis of presentation

The Group implemented the requirements of IAS 32, IAS 39 and IFRS 4 (including FRS 27) with effect from 1 January 2005 without restating 2004 comparative figures and as a consequence the 2005 results are not directly comparable with those of 2004. Therefore, in order to provide a clearer representation of the underlying performance of the business the impact of those standards for which comparatives have not been restated has been separately analysed. In addition, to facilitate comparisons, volatility arising from the use of fair values in the Group's banking and insurance businesses (page 31, note 4) together with the profit on sale or closure of businesses have also been separately identified.

A reconciliation of this 'comparable' basis of presentation to the Group's profit before tax for the year ended 31 December 2005 is shown below.

	Comparable basis £m	Volatility £m	Other IFRS related adjustments applied from 1 January 2005 £m	Profit on sale and closure of businesses £m	Statutory basis £m
Net interest income	5,513	(73)	231	-	5,671
Other income	19,343	698	(2,986)	-	17,055
Total income	24,856	625	(2,755)	-	22,726
Insurance claims	(14,794)	-	2,608	-	(12,186)
Total income, net of insurance claims	10,062	625	(147)	-	10,540
Operating expenses	(5,506)	-	35	-	(5,471)
Trading surplus (deficit)	4,556	625	(112)	-	5,069
Impairment losses on loans and advances	(1,090)	-	(209)	-	(1,299)
Profit on sale and closure of businesses	-	-	-	50	50
Profit (loss) before tax	3,466	625	(321)	50	3,820
Taxation	(941)	(392)	84	(16)	(1,265)
Profit (loss) for the year	2,525	233	(237)	34	2,555
Profit (loss) attributable to minority interests	67	36	(41)	-	62
Profit (loss) attributable to equity shareholders	2,458	197	(196)	34	2,493
Profit (loss) for the year	2,525	233	(237)	34	2,555
Earnings per share	43.9p	3.6p	(3.5)p	0.6p	44.6p

In the reconciliation above, no adjustment has been made to show the volatility element of policyholder income and insurance claims as, with the exception of policyholder interests, which is included in volatility, these offset each other.

2. Basis of presentation (continued)

In 2006, the Group plans to report its results on a full IFRS basis, separately analysing volatility and the profit (loss) on sale and closure of businesses. The Group's 2005 results on this basis are shown below.

Half-year ended**30 June 2005**

	UK Retail Banking	General Insurance	Life, pensions, OEICs and asset management	Insurance and Investments	Wholesale and International Banking	Central group items	Total
	£m	£m	£m	£m	£m	£m	£m
Net interest income	1,730	10	184	194	1,084	(219)	2,789
Other income	815	270	5,403	5,673	759	7	7,254
Total income	2,545	280	5,587	5,867	1,843	(212)	10,043
Insurance claims	-	(108)	(5,060)	(5,168)	-	-	(5,168)
Total income, net of insurance claims	2,545	172	527	699	1,843	(212)	4,875
Operating expenses	(1,281)	(78)	(196)	(274)	(1,046)	22	(2,579)
Trading surplus (deficit)	1,264	94	331	425	797	(190)	2,296
Impairment losses on loans and advances	(568)	-	-	-	(102)	-	(670)
Profit (loss) before tax	696	94	331	425	695	(190)	1,626
Volatility							
- Banking	-	-	-	-	-	(73)	(73)
- Insurance	-	7	124	131	-	-	131
- Policyholder interests	-	-	29	29	-	-	29
Profit (loss) before tax	696	101	484	585	695	(263)	1,713

Year ended**31 December 2005**

	UK Retail Banking	General Insurance	Life, pensions, OEICs and asset management	Insurance and Investments	Wholesale and International Banking	Central group items	Total
	£m	£m	£m	£m	£m	£m	£m
Net interest income	3,521	23	366	389	2,265	(431)	5,744
Other income	1,605	543	12,573	13,116	1,628	8	16,357
Total income	5,126	566	12,939	13,505	3,893	(423)	22,101
Insurance claims	-	(197)	(11,989)	(12,186)	-	-	(12,186)
Total income, net of insurance claims	5,126	369	950	1,319	3,893	(423)	9,915
Operating expenses	(2,697)	(160)	(434)	(594)	(2,181)	1	(5,471)
Trading surplus (deficit)	2,429	209	516	725	1,712	(422)	4,444
Impairment losses on loans and advances	(1,111)	-	-	-	(188)	-	(1,299)
Profit (loss) before tax	1,318	209	516	725	1,524	(422)	3,145
Volatility							
- Banking	-	-	-	-	-	(124)	(124)
- Insurance	-	28	410	438	-	-	438
- Policyholder interests	-	-	311	311	-	-	311
Profit (loss) on sale and closure of businesses	76	-	-	-	(6)	(20)	50
Profit (loss) before tax	1,394	237	1,237	1,474	1,518	(566)	3,820

3. Impact of the adoption of IFRS

Information on the effect of implementing IFRS upon the Group's 2004 results and balance sheet at 1 January 2005 was set out in the Group's announcement published on 27 May 2005. Excluding volatility, the impact of those standards applied with effect from 1 January 2005 has been to reduce earnings largely reflecting the application of effective interest rates, the reclassification of certain securities from equity to debt, and the impact of discounting on levels of loan loss impairment. There has also been a significant reduction in other income, with a corresponding decrease in insurance claims, as a result of the impact of IFRS 4 on the accounting treatment of certain insurance products. An analysis of the reduction in profit before tax by division is provided below.

Other IFRS adjustments applied from 1 January 2005

	UK Retail Banking £m	General Insurance £m	Life, pensions, OEICs and asset management £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items £m	Total £m
Net interest income	214	(18)	(4)	(22)	100	(61)	231
Other income	(206)	18	(2,722)	(2,704)	(82)	6	(2,986)
Total income	8	-	(2,726)	(2,726)	18	(55)	(2,755)
Insurance claims	-	-	2,608	2,608	-	-	2,608
Total income, net of insurance claims	8	-	(118)	(118)	18	(55)	(147)
Operating expenses	(15)	-	45	45	5	-	35
Trading surplus	(7)	-	(73)	(73)	23	(55)	(112)
Impairment losses on loans and advances	(206)	-	-	-	(3)	-	(209)
Profit (loss) before tax	(213)	-	(73)	(73)	20	(55)	(321)

4. Volatility

Banking volatility

In accordance with IFRS, it is the Group's policy to recognise all derivatives at fair value. The banking businesses manage their interest rate and other market risks primarily through the use of intra-Group derivatives, with the resulting net positions managed centrally using external derivatives. IFRS does not, however, permit the intra-Group derivatives to be used in a hedge relationship for reporting purposes. Although fair value accounting can have a significant impact on reported earnings, it does not impact on the business fundamentals or cash flows of the businesses. The Group has, therefore, implemented an internal pricing structure that allows divisions to transfer to central group items the volatility associated with marking to market derivatives held for risk management purposes. 'Banking volatility' is principally comprised of the difference between the result that would be recognised on an accrual accounting basis for derivatives held for risk management purposes and their mark to market value. The Group has set up a central hedging function to reduce the impact of this volatility by establishing, where possible, accounting hedge relationships for the external derivatives.

During 2005, profit before tax included a negative banking volatility of £124 million.

4. Volatility (continued)**Insurance volatility**

Changes in market variables such as the performance of equity markets and the level of interest rates, which are beyond the control of management, can result in significant volatility in the profitability of the Group's insurance businesses. As in previous years, in order to provide a clearer representation of the underlying performance of the life and pensions and general insurance businesses, the effect of these changes is separately analysed within insurance volatility. Following the implementation of the requirements of IFRS and FRS 27, insurance volatility is principally comprised of the elements described below.

The Group's insurance businesses have substantial holdings of investments which are accounted for at fair value with changes being reflected within the income statement. The difference between the actual return on these investments attributable to shareholders and the expected return based upon economic assumptions made at the beginning of the year is included within insurance volatility. In addition, the calculation of the value of in-force business makes assumptions about future investment returns; to the extent that actual experience is different the effect is also included within insurance volatility.

The main assumptions used in the calculation of the value of in-force business at 31 December 2005 were as follows:

	31 December 2005	31 December 2004
	%	%
Risk-adjusted discount rate (net of tax)	7.02	7.40
Return on equities (gross of tax)	6.72	7.17
Return on fixed interest securities (gross of tax)	4.12	4.57
Expenses inflation	3.79	3.76

Changes in stock market performance also affect the realistic valuation of the guarantees and options embedded within products written in the Scottish Widows With-Profits Fund, which following the implementation of FRS 27 is now reflected in the Group's balance sheet. Fluctuations in this valuation caused by market-related movements are also included within insurance volatility.

During 2005, profit before tax included positive insurance volatility of £438 million.

Policyholder interests volatility

As a result of the requirement contained in IFRS to consolidate the Group's life and pensions businesses on a line by line basis, the Group's income statement includes amounts attributable to policyholders which affect profit before tax; the most significant of these items is policyholder tax. Under IFRS, tax on policyholder investment returns is included in the Group's tax charge rather than being offset against the related income, either increasing or decreasing profit before tax with a corresponding change in the tax charge. In order to provide a clearer representation of the underlying performance of the Group's life and pensions businesses the impact of these items upon pre-tax profit has been separately identified within volatility.

During 2005, profit before tax included positive policyholder interests volatility of £311 million.

5. Insurance grossing adjustments

IFRS requires line-by-line consolidation for all items of income and expenditure and, as a result, the Group can no longer report the results of its life assurance businesses as a single line item; in addition certain investment vehicles which were previously off-balance sheet are now consolidated. The income statement therefore now includes premiums receivable from policyholders and the returns on investments held within the life funds and OEICs which are shown within total income, and related deductions within interest expense and insurance claims. Whilst this represents a significant presentational change, there is no material impact upon the Group's profitability. The following tables show the impact on the comparable income statement of these grossing adjustments:

Insurance and Investments

Year ended 31 December 2005	Comparable basis £m	Insurance gross-up £m	Comparable basis* £m
Net interest income	411	310	101
Other income	15,820	14,337	1,483
Insurance claims	<u>(14,794)</u>	<u>(14,597)</u>	<u>(197)</u>
Total income, net of insurance claims	1,437	50	1,387
Operating expenses	<u>(639)</u>	<u>(32)</u>	<u>(607)</u>
Profit before tax	<u>798</u>	<u>18</u>	<u>780</u>

*comparable basis, excluding insurance grossing adjustment

Year ended 31 December 2004	Comparable basis £m	Insurance gross-up £m	Comparable basis* £m
Net interest income	283	189	94
Other income	10,736	9,270	1,466
Insurance claims	<u>(9,622)</u>	<u>(9,408)</u>	<u>(214)</u>
Total income, net of insurance claims	1,397	51	1,346
Operating expenses	<u>(622)</u>	<u>(37)</u>	<u>(585)</u>
Impairment losses	3	-	3
Profit before tax	<u>778</u>	<u>14</u>	<u>764</u>

*comparable basis, excluding insurance grossing adjustment

6. Mortgage lending

	2005	2004
Gross new mortgage lending	£26.0bn	£26.3bn
Market share of gross new mortgage lending	9.0%	9.0%
Net new mortgage lending	£8.3bn	£9.3bn
Market share of net new mortgage lending	9.1%	9.2%
Mortgages outstanding (year-end)*	£88.4bn	£80.1bn
Market share of mortgages outstanding	9.1%	9.1%

*excluding the effect of IFRS related adjustments

7. Central group items*

	2005	2004
	£m	£m
Lloyds TSB Foundations	(34)	(31)
Funding cost of acquisitions less earnings on capital	(325)	(317)
Central costs and other unallocated items	(8)	(2)
	<u>(367)</u>	<u>(350)</u>

*comparable basis

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 a dividend on their shareholdings. In 2005, £34 million was accrued for payment to registered charities.

8. Group net interest income

	2005	2004
Statutory basis	£m	£m
Net interest income	5,671	5,110
Average interest-earning assets, excluding reverse repos	201,813	178,887
Net interest margin	2.81%	2.86%
Banking margin – comparable basis*		
Net interest income	5,149	4,847
Average interest-earning assets, excluding reverse repos	185,468	170,438
Net interest margin	2.78%	2.84%

*As a result of the implementation of IFRS, the Group's net interest income includes certain amounts attributable to policyholders, in addition to the interest earnings on shareholders' funds held in the Group's insurance businesses. In order to maintain the comparability of the Group's banking net interest margin these amounts, together with the related average interest-earning assets, have been excluded from the comparable basis calculation.

9. Other income

	2005 £m	2004 £m
Comparable basis		
Fees and commissions receivable:		
UK current account fees	754	637
Other UK fees and commissions	1,201	1,087
Insurance broking	681	672
Card services	545	515
International fees and commissions	134	131
	3,315	3,042
Fees and commissions payable	(918)	(842)
Net fees and commissions income	2,397	2,200
Net trading income	8,749	4,886
Insurance premium income	7,201	6,070
Other operating income	996	865
Total other income*	19,343	14,021
Insurance claims	(14,794)	(9,622)
Total other income, net of insurance claims*	4,549	4,399
Volatility		
- Banking	(45)	-
- Insurance	432	168
- Policyholder interests	311	(30)
Other IFRS adjustments applied from 1 January 2005	(378)	-
Discontinued operations	-	14
Total other income, net of insurance claims	4,869	4,551
*comparable basis		

10. General insurance income

	2005 £m	2004 £m
Premium income from underwriting		
Creditor	127	114
Home	441	442
Health	16	27
Reinsurance premiums	(22)	(29)
	562	554
Commissions from insurance broking		
Creditor	396	442
Home	49	45
Health	15	20
Other	221	165
	681	672

11. Operating expenses

Comparable basis	2005	2004
	£m	£m
Administrative expenses:		
Staff:		
Salaries	2,068	1,961
National insurance	154	142
Pensions	308	307
Other staff costs	325	280
	2,855	2,690
Premises and equipment:		
Rent and rates	305	293
Hire of equipment	13	16
Repairs and maintenance	136	128
Other	152	130
	606	567
Other expenses:		
Communications and external data processing	452	446
Advertising and promotion	207	205
Professional fees	216	222
Provisions for customer redress	150	112
Other	375	387
	1,400	1,372
Administrative expenses	4,861	4,629
Depreciation	639	637
Impairment of goodwill	6	-
Total operating expenses – comparable basis	5,506	5,266
Discontinued operations	-	31
Other IFRS adjustments applied from 1 January 2005	(35)	-
Total operating expenses	5,471	5,297
Cost:income ratio - comparable basis*	52.7%	54.3%
Cost:income ratio – statutory basis*	51.9%	54.8%

*total operating expenses divided by total income, net of insurance claims. The cost:income ratio on a comparable basis also excludes provisions for customer redress and the strengthening of reserves for mortality.

12. Number of employees (full-time equivalent)

	31 December 2005	31 December 2004
UK Retail Banking	33,593	36,306
Insurance and Investments	6,283	5,944
Wholesale and International Banking	19,763	19,554
Other, largely IT and Operations	10,139	11,626
	69,778	73,430
Agency staff (FTE)	(2,981)	(3,445)
Total number of employees (full-time equivalent)	66,797	69,985

13. Impairment losses on loans and advances

	2005 £m	2004 £m
Impairment losses on loans and advances (see below)	1,302	866
Other credit risk provisions	(3)	-
	1,299	866

Impairment losses and loans and advances - comparable basis

UK Retail Banking		
Personal loans/overdrafts	585	473
Credit cards	307	242
Mortgages	13	(39)
	905	676
Insurance and Investments	-	(3)
Wholesale and International Banking	188	230
Total charge – comparable basis	1,093	903
Discontinued operations	-	(37)
Other IFRS adjustments applied from 1 January 2005	209	-
Total charge	1,302	866

%

%

Charge as % of average lending:

Personal loans/overdrafts	4.76	4.20
Credit cards	4.01	3.42
Mortgages	0.02	(0.05)
UK Retail Banking	0.92	0.75
Insurance and Investments	-	(0.10)
Wholesale and International Banking	0.31	0.43
Total charge – comparable basis	0.66	0.61
Discontinued operations	-	(13.11)
Other IFRS adjustments applied from 1 January 2005	n/a	-
Total charge	0.76	0.59

14. Capital ratios

	31 December 2005 £m	1 January 2005 £m
Capital		
Tier 1	11,478	10,753
Tier 2	10,447	8,767
	21,925	19,520
Supervisory deductions	(6,160)	(6,219)
Total capital	15,765	13,301
Risk-weighted assets	£bn	£bn
UK Retail Banking	60.6	57.2
Insurance and Investments	2.6	1.9
Wholesale and International Banking	80.1	71.0
Central group items	1.6	1.7
Total risk-weighted assets	144.9	131.8
Risk asset ratios		
Total capital	10.9%	10.1%
Tier 1	7.9%	8.2%
	2005	2004
Post-tax return on average risk-weighted assets	1.81%	1.99%
Post-tax return on average risk-weighted assets*	1.92%	1.98%

*comparable basis, excluding customer redress provisions and strengthening of reserves for mortality

15. Retirement benefit obligations

The amounts recognised in the balance sheet are as follows:

	31 December 2005 £m	31 December 2004 £m
Defined benefit schemes		
Present value of scheme liabilities	17,320	14,866
Fair value of scheme assets	(14,026)	(11,648)
Net defined benefit scheme deficit	3,294	3,218
Unrecognised actuarial losses	(485)	(237)
Net recognised defined benefit scheme deficit	2,809	2,981
Other retirement benefit schemes	101	94
Net recognised liability	2,910	3,075

15. Retirement benefit obligations (continued)

The net recognised liability has reduced by £165 million from £3,075 million to £2,910 million at 31 December 2005, as cash contributions to the Group's defined benefit schemes exceeded the regular cost, partly reflecting the additional voluntary contributions of £220 million made during the year. However, unrecognised actuarial losses increased by £248 million to £485 million; a reduction in the discount rate used to value the schemes' liabilities, as a result of the fall in corporate bond yield (£1.6bn), and an increased allowance for mortality (£0.2bn) more than offset the effect of a stronger than expected return from the schemes' assets (£1.4bn). Overall, therefore, the net defined benefit scheme deficit is little changed from 2004 at £3,294 million before tax (£2,306 million net of tax).

16. Balance sheet information

	31 December 2005 £m	1 January 2005 £m
Deposits - customer accounts		
Sterling:		
Non-interest bearing current accounts	3,604	3,300
Interest bearing current accounts	37,976	35,863
Savings and investment accounts	60,522	57,255
Other customer deposits	16,809	17,058
Total sterling	118,911	113,476
Currency	12,159	12,873
Total deposits - customer accounts	131,070	126,349
Loans and advances to customers		
Domestic:		
Agriculture, forestry and fishing	2,299	2,083
Manufacturing	5,983	4,622
Construction	2,059	2,147
Transport, distribution and hotels	7,649	7,063
Property companies	8,267	5,943
Financial, business and other services	16,272	16,862
Personal : mortgages	88,528	80,282
: other	22,776	22,841
Lease financing	5,815	6,227
Hire purchase	4,853	4,828
Other	7,696	5,930
Total domestic	172,197	158,828
International:		
Latin America	173	125
United States of America	1,984	2,028
Europe	1,927	1,583
Rest of the world	735	516
Total international	4,819	4,252
Impairment provisions for loans and advances	(2,072)	(1,918)
Total loans and advances to customers	174,944	161,162

17. Economic profit

	2005	2004
	£m	£m
Comparable basis, excluding customer redress provisions and strengthening of reserves for mortality		
Average shareholders' equity	<u>11,331</u>	<u>10,735</u>
Profit attributable to equity shareholders	2,640	2,383
Less: notional charge	<u>(1,020)</u>	<u>(966)</u>
Economic profit	<u>1,620</u>	<u>1,417</u>
Statutory basis		
Average shareholders' equity	<u>9,747</u>	<u>10,493</u>
Profit attributable to equity shareholders	2,493	2,392
Less: notional charge	<u>(877)</u>	<u>(944)</u>
Economic profit	<u>1,616</u>	<u>1,448</u>

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 (2004: 9 per cent).

18. Earnings per share

	2005	2004
Comparable basis, excluding customer redress provisions and strengthening of reserves for mortality		
Profit attributable to equity shareholders	£2,640m	£2,383m
Weighted average number of ordinary shares in issue	5,595m	5,590m
Earnings per share	47.2p	42.6p
Statutory basis		
Basic		
Profit attributable to equity shareholders	£2,493m	£2,392m
Weighted average number of ordinary shares in issue	5,595m	5,590m
Earnings per share	44.6p	42.8p
Fully diluted		
Profit attributable to equity shareholders	£2,493m	£2,392m
Weighted average number of ordinary shares in issue	5,639m	5,625m
Earnings per share	44.2p	42.5p

19. Tax

Under IFRS the Group is required to include in income tax expense the tax attributable to UK life insurance policyholder earnings and its interests in Open Ended Investment Companies (OEICs).

The effective tax rate of the Group, excluding gross policyholder tax charge and OEIC interests from profit before tax and the tax charge, was 27.0 per cent (2004: 28.3 per cent) compared to the standard UK corporation tax rate of 30 per cent.

The effective tax rate including policyholder tax and OEIC interests was 33.1 per cent, compared to 29.3 per cent in 2004.

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

	2005	2004
	£m	£m
Profit before tax	3,820	3,477
Tax charge thereon at UK corporation tax rate of 30%	1,146	1,043
Factors affecting charge:		
Disallowed and non-taxable items	(47)	(32)
Overseas tax rate differences	(1)	(14)
Net tax effect of disposals and unrealised gains	(59)	(2)
Tax deductible coupons on non-equity minority interests	-	(12)
Policyholder tax and OEIC interests	223	33
Other items	3	2
Tax charge	1,265	1,018

20. Profit/loss on sale of businesses

In December 2005, the Group announced the disposal of its Goldfish credit card business and this, together with additional costs incurred in relation to business closures or previous disposals, has led to a net profit of £50 million being recognised in the income statement. During 2004, the Group disposed of a number of its businesses in Latin America and a net loss of £21 million was recognised in the income statement.

21. Scottish Widows - realistic balance sheet information

Financial Services Authority (FSA) returns for large with-profits companies now include realistic balance sheet information. 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 2005 are shown below, together with the actual position at 31 December 2004.

31 December 2005 (estimated)	With-profits fund £bn	Long-term fund £bn
Available assets, including support account	20.1	23.2
Realistic value of liabilities	(19.2)	(19.1)
Working capital for fund	0.9	4.1
Working capital ratio	4.4%	17.8%
Risk capital margin cover	2.7 times	11.5 times
31 December 2004	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

22. Dividend

A final dividend for 2005 of 23.5p per share (2004: 23.5p) will be paid on 3 May 2006, making a total for the year of 34.2p (2004: 34.2p).

Shareholders who have already joined the dividend reinvestment plan will automatically receive shares instead of the cash dividend. Key dates for the payment of the dividend are:

Shares quoted ex-dividend	8 March
Record date	10 March
Final date for joining or leaving the dividend reinvestment plan	5 April
Final dividend paid	3 May
Annual general meeting	11 May

23. 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 2005 were approved by the directors on 23 February 2006 and will be delivered to the registrar of companies following publication on 1 April 2006. 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.

A copy of the Group's corporate responsibility report may be obtained by writing to Corporate Responsibility, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN. This information together with the Group's code of business conduct is also available on the Group's website.