Lloyds TSB Group plc

Results 2007

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FORWARD LOOKING STATEMENTS

KEY HIGHLIGHTS

Unless otherwise stated the analysis throughout this document compares the year to 31 December 2007 with the year to 31 December 2006 and excludes the impact of insurance related volatility, profit on disposal of businesses, settlement of overdraft claims in 2007 and the pension schemes related credit in 2006 (page 36, note 2).

"I am delighted to report that the Group has continued to deliver a strong trading performance, notwithstanding the significant recent turbulence in global financial markets. Our higher quality, lower risk, business model has been clearly demonstrated in the resilience of our earnings stream.

The Board remains confident in the Group's earnings outlook and, as a result, has decided to increase the final dividend by 5 per cent to 24.7 pence per share."

Sir Victor Blank
Chairman

- **Strong financial performance** with statutory earnings per share increased by 17 per cent to 58.3p. Economic profit increased by 21 per cent. Statutory profit before tax was 6 per cent lower at £4,000 million, largely reflecting adverse policyholder interests volatility.

- **Strong underlying profit momentum**. Profit before tax up 6 per cent to £3,919 million notwithstanding impact of global financial markets turbulence. Excluding the impact of £280 million market dislocation, profit before tax increased by 13 per cent to £4,199 million.

- **High returns maintained,** with return on equity of 25.2 per cent. Improved return on risk-weighted assets, and return on Embedded Value increased to 9.9 per cent.

- **Good income growth.** Income growth of 5 per cent, reflecting the strength and resilience of the Group's revenue base. Excluding the impact of market dislocation and insurance grossing, income increased by 6 per cent.

- **Excellent cost management.** Cost growth of only 1 per cent, delivering wide positive jaws. Cost:income ratio improved by 1.8 percentage points to 49.0 per cent. Groupwide productivity programme exceeded 2007 expectations, and remains on track to deliver benefits of £250 million in 2008.

- **Satisfactory credit quality.** Retail impairment charge lower than in 2006. Based on current trends, we do not expect a significant change in the retail impairment charge in the first half of 2008, compared to the first half of 2007. Corporate asset quality remains good.

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

- **Excellent capital management.** Robust capital ratios maintained. Satisfactory transition to Basel II, with tier 1 capital ratio increasing to 9.5 per cent. Over £3.6 billion of capital repatriated from Scottish Widows over the last 3 years.

SUMMARY OF RESULTS

	2007	2006	***Change***
	£m	£m	***%***
Results – statutory			
Total income, net of insurance claims	**10,706**	11,104	***(4)***
Operating expenses	**5,567**	5,301	***(5)***
Trading surplus	**5,139**	5,803	***(11)***
Impairment	**1,796**	1,555	***(15)***
Profit before tax	**4,000**	4,248	***(6)***
Profit attributable to equity shareholders	**3,289**	2,803	***17***
Economic profit (page 48, note 17)	**2,238**	1,855	***21***
Earnings per share (page 48, note 18)	**58.3p**	49.9p	***17***
Post-tax return on average shareholders' equity	**28.2%**	26.6%	
Results – excluding volatility, profit on sale of businesses, settlement of overdraft claims in 2007 and the pension schemes related credit in 2006			
Total income, net of insurance claims	**11,206**	10,694	***5***
Operating expenses	**5,491**	5,429	***(1)***
Trading surplus	**5,715**	5,265	***9***
Impairment	**1,796**	1,555	***(15)***
Profit before tax	**3,919**	3,710	***6***
Profit attributable to equity shareholders	**2,863**	2,634	***9***
Economic profit	**1,842**	1,690	***9***
Earnings per share	**50.8p**	46.9p	***8***
Post-tax return on average shareholders' equity	**25.2%**	25.1%	
Post-tax return on average risk-weighted assets	**1.76%**	1.72%	
Shareholder value			
Closing market price per share (year end)	**472p**	571.5p	***(17)***
Total market value of shareholders' equity	**£26.7bn**	£32.2bn	***(17)***
Total shareholder return	**(12.1)%**	24.8%	
Proposed dividend per share (page 57, note 24)	**35.9p**	34.2p	***5***

	31 December 2007	31 December 2006	***Change***
	£m	£m	***%***
Balance sheet			
Shareholders' equity	**12,141**	11,155	***9***
Net assets per share	**212p**	195p	***9***
Total assets	**353,346**	343,598	***3***
Risk-weighted assets (Basel I basis)	**171,971**	156,043	***10***
Loans and advances to customers	**209,814**	188,285	***11***
Customer deposits	**156,555**	139,342	***12***
Risk asset ratios			
Total capital (Basel I basis)	**11.0%**	10.7%	
Tier 1 capital (Basel I basis)	**8.1%**	8.2%	

PROFIT ANALYSIS BY DIVISION

	2007	2006	***Change***
	£m	£m	***%***
UK Retail Banking (page 14)	**1,808**	1,549	***17***
Insurance and Investments (page 18)	**1,056**	973	***9***
Wholesale and International Banking (page 25)			
- Before impact of market dislocation	**1,717**	1,640	***5***
- Impact of market dislocation	**(280)**	-	
	1,437	1,640	***(12)***
Central group items	**(382)**	(452)	
Profit before tax*	**3,919**	3,710	***6***
Volatility (page 36, note 2)			
- Insurance	**(267)**	84	
- Policyholder interests (page 37, note 2)	**(233)**	326	
Profit on sale of businesses	**657**	-	
Settlement of overdraft claims	**(76)**	-	
Pension schemes related credit	**-**	128	
Profit before tax	**4,000**	4,248	***(6)***
Taxation (page 56, note 23)	**(679)**	(1,341)	
Profit for the year	**3,321**	2,907	***14***
Profit attributable to minority interests	**32**	104	
Profit attributable to equity shareholders	**3,289**	2,803	***17***
Profit for the year	**3,321**	2,907	***14***
Earnings per share (page 48, note 18)	**58.3p**	49.9p	***17***

*Excluding volatility, profit on sale of businesses, settlement of overdraft claims and pension schemes related credit.

GROUP CHIEF EXECUTIVE'S STATEMENT

2007 was another good year for Lloyds TSB. We delivered strong results, despite the more challenging operating environment that we saw in the second half of the year. Our business performance, excluding the impact of the market dislocation, continued its strong momentum as our relationship-based strategy serves us well. We believe this momentum will carry through to 2008, given we have a high quality, sustainable earnings stream, driven by the deep relationships we have with our customers, coupled with the significant growth potential we have both within our own franchise and in the UK market as a whole. As a result, we remain confident as to the Group's future outlook.

Given this strong performance and confidence in our future earnings capacity, the Board has decided to increase the final dividend by 5 per cent to 24.7 pence per share. This brings the full year dividend to 35.9 pence per share, an increase of 5 per cent over that paid for 2006. Going forward, the Board expects to grow the dividend over time, whilst continuing to build dividend cover.

Strong momentum

On an underlying basis, the Group increased profit before tax by 6 per cent to £3,919 million. Excluding the £280 million charge arising from the market dislocation, the Group grew profits by 13 per cent from £3,710 million to £4,199 million. Whilst we cannot overlook the impact of the dislocation on our results, these numbers are more reflective of the ongoing performance of the Group.

Our lower risk strategy limited the impact of the abrupt change in the markets and, consequently, our charge was relatively modest in comparison to our balance sheet size, our earnings, and the charges taken by many other organisations. This is in large part due to the conscious choice to focus the Group's strategy on building deep, long-lasting relationships with our customers in order to deliver high quality, sustainable results over time.

Over the last few years, the successful execution of our strategy has delivered increasing levels of customer recruitment and enhanced sales volumes, and in 2007 we saw further progress on these leading indicators of future profit.

In the Retail Bank, we attracted over one million new current accounts and we delivered strong flows of new business, with sales volumes rising 17 per cent. We are now the number one provider of current accounts, cards and personal loans. In Insurance and Investments, we have seen good progress in the sale of bancassurance products to our franchise customers and sales volumes rose by 20 per cent, with particular success in the sale of protection products through the branch network.

In Wholesale and International Banking, we saw similar strong progress. Our Corporate Markets business is attracting growing numbers of new customers and recorded a further 46 per cent improvement in cross-sales. Our Commercial Banking business attracted good levels of the more valuable switcher accounts and we remain the leader in terms of the share of the start-up market, at 21 per cent.

Key to supporting our relationship-focused strategy is the efficient management of costs and capital, allowing us to continue to invest in the franchise and drive future growth. Once again we have delivered a strong performance in these areas.

Costs rose by only 1 per cent, as we continue to embed our efficiency programmes, and our cost:income ratio improved to 49.0 per cent, from 50.8 per cent in 2006. The extension of our lean manufacturing and sigma efficiency programmes, the improvement of our procurement processes and the adoption of end-to-end processing led to improvements in efficiency as well as better levels of service quality.

Our capital position is strong. We manage our capital to support efficient growth, directing capital to our higher growth and higher return business lines. We continued the capital efficiency programmes in Scottish Widows, with a further £1.9 billion repatriated to the Group during the year.

High quality sustainable business

Key to sustaining our strong momentum in future years are the relationships we are building with our customers, understanding their needs and developing the products and services to meet those needs.

As our results in recent periods show, this strategy has served us well and has a number of benefits. A high percentage of our income is recurring customer revenue, which is by nature more stable and sustainable. By building deep relationships, meeting more of our customers' needs, we also benefit in that we have a lower cost of acquiring new sales. Additionally, because we understand our customers well, we tend to have lower impairments and thus require less capital. Perhaps as important as the decision to pursue the relationship strategy, was the decision not to pursue a product-led strategy which, as we have seen of late, results in more volatile revenues and carries a significantly higher risk profile.

Significant growth potential

The UK market represents the second largest economic profit pool for financial services, with high levels of household financial wealth. It enjoys the lowest level of unemployment in the G7 economies and despite a likely slow down in 2008, we are projecting good medium-term economic performance and strong long-term savings growth.

We estimate that we currently only have a 10 per cent share of the economic profit pool, and so we have significant potential within our existing franchise to grow by meeting more of our customers' needs as well as through adding new customers to our franchise.

To support this growth potential we are investing in developing the supporting infrastructure in areas such as customer data management and account planning tools. We continue to enhance our risk and financial systems and, together, these areas will ensure we have the necessary platform to safely support our future growth.

Outlook

As we look forward to 2008, we do so against a backdrop of turbulent markets and slowing global economic growth. Despite these challenges, we are well positioned to deliver further growth and to take advantage of the opportunities that the current environment offers.

Our relationship-focused strategy is delivering good results for all our stakeholders. The events of the last year show that it is effective in generating sustainable, high quality results through the cycle. Our prudent approach to risk ensured we experienced minimal impact from the US sub-prime fall-out. We have a strong capital position and this will support the future growth of the business.

This has been a year of significant progress across the Group and let me express my thanks to all our staff for their wonderful contribution to our success. Relationship businesses thrive on great staff that understand customers and work towards meeting their needs. In this last year, the performance of our staff has been terrific.

J Eric Daniels
Group Chief Executive

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE

In 2007 the Group delivered a strong performance against the backdrop of significant turbulence in global financial markets. Statutory profit attributable to equity shareholders increased by £486 million, or 17 per cent, to £3,289 million and earnings per share increased by 17 per cent to 58.3p. Economic profit increased by 21 per cent to £2,238 million, and the post-tax return on equity improved from 26.6 per cent to 28.2 per cent. Profit before tax fell by 6 per cent to £4,000 million, largely as a result of significant adverse policyholder interests volatility.

To enable meaningful comparisons to be made with 2006, the income statement commentaries below exclude insurance related volatility, the profit on sale of businesses, settlement of overdraft claims in 2007 and the pension schemes related credit in 2006.

Building strong customer relationships

Lloyds TSB's strategy to build strong customer franchises and grow our business by realising the considerable potential within those franchises continues to deliver strong results. We have continued to extend the reach and depth of our customer relationships, achieving good sales growth, whilst also improving productivity and efficiency. The underlying performance of the business remains strong with revenue growth remaining well ahead of cost growth.

Like many other financial institutions, the Group has been affected by the recent market dislocation; however, the relationship focus of our strategy has meant that the impact on the Group's profit before tax was limited to £280 million in 2007 (£188 million reduction in income; £92 million increase in impairment).

Continued momentum throughout the business

Profit before tax increased by £209 million, or 6 per cent, to £3,919 million, underpinned by good relationship banking momentum, notwithstanding the impact of the £280 million market dislocation in Corporate Markets. Revenue growth of 5 per cent exceeded cost growth of 1 per cent, with each division delivering stronger revenue growth than cost growth. Earnings per share increased by 8 per cent to 50.8p and economic profit increased by 9 per cent to £1,842 million. Excluding the impact of market dislocation, Group profit before tax increased by 13 per cent to £4,199 million.

Good income growth

Overall, income growth of 5 per cent reflects good progress in delivering our divisional strategies. We have increased income from both new and existing customers, with strong growth in both assets and liabilities, as well as a significant increase in fee-related income. Excluding the impact of market dislocation and insurance grossing, income increased by 6 per cent.

Group net interest income, excluding insurance grossing, increased by £349 million, or 7 per cent, to £5,631 million. Customer deposits increased by 12 per cent to £157 billion, supported by strong growth in savings balances in the retail bank, where bank savings increased by 15 per cent and wealth management balances by 12 per cent. Customer deposits in our Corporate Markets, Commercial and International businesses increased by 18 per cent.

Strong levels of customer lending growth in Commercial Banking and Corporate Markets, and good growth in mortgages and retail deposits, more than offset the marketwide experience of lower unsecured personal lending balances. Total assets increased by 3 per cent to £353 billion, with an 11 per cent increase in loans and advances to customers.

The net interest margin from our banking businesses (page 39, note 4) decreased by 9 basis points, to 2.79 per cent, with broadly stable product margins but an adverse mix effect. Stronger growth in finer margin mortgages and flat wider margin unsecured consumer lending contributed to the negative mix effect which accounted for 9 basis points of margin decline. Overall product margins were 2 basis points lower, reflecting competitive pressures in the mortgage and asset finance businesses and a move to finer margin secured lending in Commercial Banking. Funding costs improved the margin by 2 basis points. During the second half of 2007, product margins have started to show signs of improving, with increased new business margins becoming evident in mortgages and corporate lending reflecting a marketwide trend towards more appropriate pricing for risk.

Other income, net of insurance claims and excluding insurance grossing, increased by £133 million, or 2 per cent, to £5,530 million. This reflected higher fees and commissions receivable as a result of strong growth in added value current accounts and higher insurance commissions in the retail bank. In addition, good levels of growth were achieved in fee based product sales to corporate and commercial banking customers.

Excellent cost management

The Group continues to invest in improving processing efficiency, resulting in continued tight control over costs. During 2007, operating expenses increased by only 1 per cent to £5,491 million. Over the last 12 months, staff numbers have fallen by 4,552 (7 per cent) to 58,078, largely as a result of the disposal of Lloyds TSB Registrars and Dutton-Forshaw and further efficiency improvements in back-office processing centres. These improvements in operational effectiveness have resulted in a further reduction in the Group cost:income ratio from 50.8 per cent to 49.0 per cent.

The Group’s programme of productivity initiatives has continued to deliver significant benefits, improving underlying cost efficiency and creating greater headroom for further investment in the business. During 2007 the programme delivered net cost reductions of £145 million, exceeding the previously indicated net benefits of approximately £125 million, with gross benefits of £248 million and reinvestment in further programme initiatives of £103 million. The Group remains on track to deliver net benefits of approximately £250 million in 2008.

Along with a number of other UK banks, during the year the Group has received a number of customer claims for the repayment of overdraft fees. On 27 July 2007, several banks, together with the Office of Fair Trading, asked the High Court of England and Wales to clarify the legal position regarding personal current account fees. The 2007 results include a charge of £76 million relating to the settlement of claims during the year, together with related costs.

Overall credit quality remains satisfactory

Impairment losses increased by 15 per cent to £1,796 million. Our impairment charge on loans and advances expressed as a percentage of average lending was 0.82 per cent, excluding the impact of market dislocation and the 2007 Finance Act, compared to 0.83 per cent in 2006 (page 42, note 9). Impaired assets increased by 8 per cent to £5,311 million, less than the rate of lending growth, and now represent 2.5 per cent of total lending, down from 2.6 per cent at 31 December 2006.

In UK Retail Banking, impairment losses decreased by £14 million, or 1 per cent, to £1,224 million. During 2007, we have seen a reduction in the level of customer insolvencies, improvements in the Group's collections procedures and better than assumed recoveries. The quality of new unsecured lending has continued to be strong and our arrears and delinquency trends have improved during the year. In addition, the asset quality of our mortgage portfolio has remained excellent. Whilst the uncertain UK macroeconomic environment and customer insolvency trends remain key factors in the outlook for retail impairment, our current lead indicators are good, we are continuing to enhance our underwriting and collections procedures and the quality of new business remains strong. As a result, based on current trends, we do not expect a significant change in the retail impairment charge in the first half of 2008, compared to the first half of 2007.

The Wholesale and International Banking charge for impairment losses increased by £264 million to £572 million, including a £92 million impairment charge relating to the impact of market dislocation in the second half of 2007, and a one-off charge of £28 million relating to the impact of the 2007 Finance Act on the Group's leasing business. The increase in the impairment charge also reflects a lower level of releases and recoveries in Corporate Markets and the impact of recent double-digit growth rates in Corporate lending.

Limited exposure to assets affected by current capital markets uncertainties

Whilst no bank has been immune to the impact of the turbulence in global financial markets in the second half of 2007, Lloyds TSB's high quality business model means that the Group has relatively limited exposure to assets affected by current capital markets uncertainties (page 46, note 15).

<u>US sub-prime Asset Backed Securities (ABS) and ABS Collateralised Debt Obligations (CDOs)</u>

Lloyds TSB has no direct exposure to US sub-prime ABS and limited indirect exposure through ABS CDOs. During the second half of 2007, the market value of our holdings in ABS CDOs reduced and, as a result, the Group has taken an income statement charge of £114 million, leaving a residual investment of £130 million, net of hedges. The write-down largely reflects junior tranches of CDOs which have been written down to the expected interest payments to be received within the next 12 months. The Group has no exposure to mezzanine ABS CDOs. The Group's residual investment of £130 million is stated net of credit default swap (CDS) protection totalling £470 million purchased from a 'triple A' rated monoline Financial Guarantor. At 31 December 2007, the underlying assets supported by this protection had fallen in value, leaving a reliance on the CDS protection totalling £155 million. In addition, we have £1,861 million of ABS CDOs which are fully cash collateralised by major global financial institutions.

Structured Investment Vehicle (SIV) Capital Notes

At 30 June 2007 the Group's exposure to SIV Capital Notes totalled £100 million. During the second half of 2007 the Group wrote down the value of these assets by £22 million, leaving a residual exposure at 31 December 2007 of £78 million. Additionally, at 31 December 2007 the Group had commercial paper back up liquidity facilities totalling £370 million, of which £98 million had been drawn. All of these liquidity lines are senior facilities. Since the year end, these facilities have been reduced to £208 million, of which £115 million has been drawn. The Group has no SIV-Lite exposure.

Trading portfolio

In the second half of 2007, Corporate Markets also saw a reduction in profit before tax of approximately £144 million as a result of the impact of mark-to-market adjustments in the Group's trading portfolio, to reflect the marketwide repricing of liquidity and credit. At 31 December 2007 the trading portfolio contained £181 million of indirect exposure to US sub-prime mortgages and ABS CDOs. This super senior exposure is protected by note subordination.

Available-for-sale assets

At 31 December 2007, the Group's portfolio of available-for-sale assets totalled £20,196 million (31 December 2006: £19,178 million). A significant proportion of these assets (£8.3 billion) related to the ABS in Cancara. The residual assets included £3.2 billion Student Loan ABS, predominantly guaranteed by the US Government, £4.6 billion Government bond and short-dated bank commercial paper and certificates of deposit and £4.1 billion major bank senior paper and high quality ABS. These available-for-sale assets are intended to be held to maturity however, under IFRS, they are marked-to-market through reserves. During 2007, a net £413 million reserves adjustment, which has no impact on the Group's capital ratios, has been made to reflect a reduction in the value of these assets. These assets are not impaired and we expect to obtain full value for them upon maturity.

The Group's investment in Cancara, our hybrid Asset Backed Commercial Paper conduit, was £12.0 billion at 31 December 2007, comprising £8.3 billion ABS and £3.7 billion client receivables transactions. Cancara, which is fully consolidated in the Group's accounts, is managed in a very conservative manner, which is demonstrated by the quality and ratings stability of its underlying asset portfolio. At 31 December 2007, the ABS bonds in Cancara were 100 per cent Aaa/AAA rated by Moody's and Standard & Poor's respectively, and there was no exposure either directly or indirectly to sub-prime US mortgages within the ABS portfolio. Since the year end, ABS totalling £67 million have been downgraded. At 31 December 2007 the client receivables portfolio included £115 million of US sub-prime mortgage exposure.

Scottish Widows has no exposure to US sub-prime ABS either directly or indirectly through CDOs. The Group holds £25 million of short-dated SIV commercial paper through Scottish Widows.

Strong capital management disciplines

Capital efficiency continued to improve throughout the Group, resulting in an increase in post-tax return on average shareholders' equity to 25.2 per cent, and in the post-tax return on average risk-weighted assets to 1.76 per cent, from 1.72 per cent. In our life assurance and investment businesses, the post-tax return on embedded value, on a European Embedded Value (EEV) basis, increased to 9.9 per cent, from 9.3 per cent.

At the end of December 2007, the total capital ratio on a Basel I basis was 11.0 per cent and the tier 1 ratio was 8.1 per cent. During the year, risk-weighted assets increased by 10 per cent to £172.0 billion, reflecting growth in our mortgage and Corporate Markets businesses. Going forward, we expect high single-digit or low double-digit annual growth in risk-weighted assets, reflecting increased opportunities to continue to grow our customer lending. The Group has successfully managed the transition to Basel II and the Group's opening capital ratios on a Basel II basis were 11.0 per cent for total capital and 9.5 per cent for tier 1 capital (page 43, note 11).

Scottish Widows remains strongly capitalised and, at the end of December 2007, the working capital ratio of the Scottish Widows Long Term Fund was an estimated 19.2 per cent (page 49, note 19). During 2007, further capital repatriation totalling £1.9 billion was made to the Group, bringing the total capital repatriation since the beginning of 2005 to over £3.6 billion. On 5 December 2007 Standard & Poor's announced that it had re-affirmed its Scottish Widows 'AA-' debt rating and placed it on positive outlook.

Maintaining a strong liquidity and funding position

Throughout the recent marketwide liquidity turbulence, Lloyds TSB has maintained a strong liquidity position for both the Group's funding requirements, which are supported by our strong and stable retail and corporate deposit base, and those of its sponsored conduit, Cancara. Retail and corporate deposit inflows have been strong and the Group continues to benefit from its strong credit ratings and diversity of funding sources. This has resulted in the Group continuing to fund well over the last few months. In January 2008, Moody's announced that it had re-affirmed its 'Aaa' long-term debt rating for Lloyds TSB Bank plc.

Significant reduction in the Group pension schemes' deficit

The Group's defined benefit pension schemes' gross deficit at 31 December 2007 improved by £1,416 million to £683 million, comprising net recognised liabilities of £2,033 million partly offset by unrecognised actuarial gains of £1,350 million (page 42, note 10). This improvement reflects an increase in the real discount rate used to value the schemes' liabilities and Group contributions to the schemes, which exceeded the cost of accruing benefits.

Substantial profit on sale of non-core businesses

During 2007 the Group sold a number of non-core businesses realising profits on the disposal totalling £657 million (page 47, note 16). This has further strengthened the Group's capital ratios and improved capital flexibility.

In May 2007, Lloyds TSB Group agreed the sale of the business and assets of Lloyds TSB Registrars to Advent International, subject to completion and other adjustments. The transaction was completed on 30 September 2007, following regulatory approval, and the Group has reported a profit before tax on the sale of this business of £407 million (tax: nil).

In July 2007, the Group announced an agreement to sell Abbey Life Assurance Company Limited (Abbey Life) to Deutsche Bank AG. This transaction was also completed at the end of September 2007 and the Group has reported a profit before tax on the sale of this business of £272 million (tax: nil). In addition, a pre-sale dividend of £175 million was paid to Group in June 2007.

Taxation charge

The Group's tax charge for 2007 was £679 million, which was an effective rate of 17.0 per cent (2006: 31.6 per cent). The effective tax rate is below the standard UK corporation tax rate as a result of the gains on disposals being either exempt from tax or covered by capital losses arising in earlier years, a deferred income tax credit following the reduction in the corporation tax rate announced in the 2007 Finance Act, and credits arising on policyholder interests. Under IFRS, the income statement includes a corresponding charge for policyholder interests within the Group's profit before tax. Excluding these items the Group's effective rate of tax was 28.3 per cent (page 56, note 23).

The 2007 Finance Act reduction in corporation tax rate from 30 per cent to 28 per cent resulted in a one-off impairment charge of £28 million before tax (£20 million after tax), relating to a reduction in future rental income within the Group's leasing business. In addition, the Group's deferred tax liabilities at 31 December 2007 were reduced, resulting in a credit to the Group's tax charge of £110 million. The net impact of these items has been to increase earnings attributable to shareholders by £90 million during the year.

Delivering accelerated earnings momentum, whilst improving profitability and returns

2007 has been a challenging year for all banks, however Lloyds TSB's high quality, more conservative business model has withstood the difficulties of global financial markets turbulence. Strong earnings momentum has continued in the UK retail banking and insurance businesses, and our relationship focused Corporate and Commercial businesses have also continued to perform well. These strong performances have resulted in a good level of income growth which, combined with excellent cost control, has resulted in strong underlying profit momentum. The Group has also continued to maintain satisfactory asset quality. Encouragingly, this performance has not come at the expense of returns, as the Group has continued to improve both its return on equity and return on risk-weighted assets. As a result, the Group is well placed to maintain the recent momentum established throughout the business, and we expect to continue to perform well in 2008.

Helen A Weir
Group Finance Director

SUMMARISED SEGMENTAL ANALYSIS

2007	**UK Retail Banking**	**Insurance and Investments****	**Wholesale and International Banking**	**Central group items**	**Group excluding insurance gross up**	**Insurance gross up****	**Group**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**3,783**	**68**	**2,518**	**(738)**	**5,631**	**461**	**6,092**
Other income	**1,797**	**1,900**	**1,773**	**362**	**5,832**	**6,804**	**12,636**
Total income	**5,580**	**1,968**	**4,291**	**(376)**	**11,463**	**7,265**	**18,728**
Insurance claims	**-**	**(302)**	**-**	**-**	**(302)**	**(7,220)**	**(7,522)**
Total income, net of insurance claims	**5,580**	**1,666**	**4,291**	**(376)**	**11,161**	**45**	**11,206**
Operating expenses	**(2,548)**	**(636)**	**(2,282)**	**(6)**	**(5,472)**	**(19)**	**(5,491)**
Trading surplus (deficit)	**3,032**	**1,030**	**2,009**	**(382)**	**5,689**	**26**	**5,715**
Impairment	**(1,224)**	**-**	**(572)**	**-**	**(1,796)**	**-**	**(1,796)**
Profit (loss) before tax*	**1,808**	**1,030**	**1,437**	**(382)**	**3,893**	**26**	**3,919**
Volatility							
- Insurance	**-**	**(267)**	**-**	**-**	**(267)**	**-**	**(267)**
- Policyholder interests	**-**	**-**	**-**	**-**	**-**	**(233)**	**(233)**
Profit on sale of businesses	**-**	**272**	**385**	**-**	**657**	**-**	**657**
Settlement of overdraft claims	**(76)**	**-**	**-**	**-**	**(76)**	**-**	**(76)**
Profit (loss) before tax	**1,732**	**1,035**	**1,822**	**(382)**	**4,207**	**(207)**	**4,000**
2006							
Net interest income	3,642	56	2,177	(593)	5,282	78	5,360
Other income	1,621	1,740	2,035	201	5,597	8,306	13,903
Total income	5,263	1,796	4,212	(392)	10,879	8,384	19,263
Insurance claims	-	(200)	-	-	(200)	(8,369)	(8,569)
Total income, net of insurance claims	5,263	1,596	4,212	(392)	10,679	15	10,694
Operating expenses	(2,476)	(646)	(2,264)	(51)	(5,437)	8	(5,429)
Trading surplus (deficit)	2,787	950	1,948	(443)	5,242	23	5,265
Impairment	(1,238)	-	(308)	(9)	(1,555)	-	(1,555)
Profit (loss) before tax*	1,549	950	1,640	(452)	3,687	23	3,710
Volatility							
- Insurance	-	84	-	-	84	-	84
- Policyholder interests	-	-	-	-	-	326	326
Pension schemes related credit	-	-	-	128	128	-	128
Profit (loss) before tax	1,549	1,034	1,640	(324)	3,899	349	4,248

*Excluding volatility, profit on sale of businesses, the settlement of overdraft claims in 2007 and the pension schemes related credit in 2006.

**The Group's income statement includes income and expenditure which are attributable to the policyholders of the Group's long-term assurance funds. These items have no impact upon the profit attributable to equity shareholders. In order to provide a clearer representation of the underlying trends within the Insurance and Investments segment, these items are shown within a separate column in the segmental analysis above.

DIVISIONAL PERFORMANCE

UK RETAIL BANKING

	2007	2006	***Change***
	£m	£m	***%***
Net interest income	**3,783**	3,642	***4***
Other income	**1,797**	1,621	***11***
Total income	**5,580**	5,263	***6***
Operating expenses	**(2,548)**	(2,476)	***(3)***
Trading surplus	**3,032**	2,787	***9***
Impairment	**(1,224)**	(1,238)	***1***
Profit before tax, excluding settlement of overdraft claims	**1,808**	1,549	***17***
Settlement of overdraft claims	**(76)**	-	
Profit before tax	**1,732**	1,549	***12***
Cost:income ratio*	**45.7%**	47.0%	
Post-tax return on average risk-weighted assets*	**2.13%**	1.76%	
Total assets	**£115.0bn**	£108.4bn	***6***
Risk-weighted assets	**£61.7bn**	£59.1bn	***4***
Customer deposits	**£82.1bn**	£75.7bn	***8***

*Excluding settlement of overdraft claims.

Key highlights

- **Excellent profit performance.** Profit before tax increased by 17 per cent to £1,808 million, excluding the settlement of overdraft claims.
- **Strong income momentum,** up 6 per cent, supported by overall sales growth of 17 per cent.
- **Excellent progress in growing the current account customer franchise**, with over 1 million new current accounts opened, an increase of 17 per cent. New Added Value Accounts increased by 79 per cent. Lloyds TSB is now the UK market leader in new current account customer recruitment.
- **Strong growth in savings deposits** resulted in an 11 per cent increase in savings balances, with 15 per cent growth in bank savings.
- **Stabilisation in net interest margin,** with net interest margin in the second half of 2007 1 basis point higher than in the first half of 2007.
- **Continued good cost management**, with a clear focus on investing to improve service quality and processing efficiency. Excluding the impact of the settlement of overdraft claims, operating expenses increased by 3 per cent and there was a substantial improvement in the cost:income ratio to 45.7 per cent.
- **The quality of new lending continues to be strong.** Arrears levels have continued to improve and the impairment charge in 2007 was lower than in 2006. Whilst the economic outlook for 2008 is uncertain, we do not expect to experience a significant change in the retail impairment charge in the first half of 2008, compared to the first half of 2007.
- **Improved return on risk-weighted assets**, reflecting the impact of double-digit profit growth exceeding the increase in risk-weighted assets.

UK RETAIL BANKING (continued)

During 2007, UK Retail Banking continued to make substantial progress in each of its key strategic priorities: growing income from its existing customer base; expanding its customer franchise; and improving productivity and efficiency. In each of these areas, a key focus has been on improving sales of recurring income products, such as current accounts and savings products which, combined with higher lending related income, has supported the accelerating rate of revenue growth.

Profit before tax from **UK Retail Banking** increased by £183 million, or 12 per cent, to £1,732 million, reflecting strong levels of franchise growth, excellent cost management and a slightly reduced impairment charge. Excluding the settlement of overdraft claims, profit before tax increased by 17 per cent to £1,808 million. Total income increased by £317 million, or 6 per cent, supported by higher income from current accounts, savings and personal lending.

The adverse mix effect of strong growth in finer margin mortgages and flat wider margin unsecured personal lending led to an overall reduction in the division's net interest margin. Product margins on a year-on-year basis fell slightly reflecting competitive pressures in the mortgage business in the first half of 2007 which more than offset an increase in retail savings margins. Towards the end of the year, new business margins in the mortgage business started to improve and this supported a stabilisation in the UK Retail Banking net interest margin in the second half of the year, compared to the first half.

Operating expenses remained well controlled, increasing by 3 per cent, excluding the settlement of overdraft claims. Significant improvements have been made in the rationalisation of back office operations to improve efficiency and we continue to increase the proportion of front office to back office staff in the branch network.

Growing income from the customer base

The Retail Bank has continued to make excellent progress, with further strong growth in product sales and continued good revenue growth. We continue to deliver a very strong performance in the growing savings and investment market, especially in bank savings where we have recently benefited from a significantly improved rate of deposit growth.

Overall sales increased by 17 per cent, with improvements over a broad range of products, especially current accounts, credit cards and bank savings products. Sales volumes were particularly strong in the branch network with an increase of 24 per cent. This continued strong sales growth has been driven from high levels of product innovation over the last twelve months with the successful launch of a number of enhanced savings products, an improved range of added value current accounts and the introduction of the innovative Lloyds TSB Duo Airmiles credit card offer. Customer deposits have increased strongly, by 8 per cent over the last twelve months, with particularly strong progress in growing our bank savings and wealth management deposit balances, with increases of 15 per cent and 12 per cent respectively.

	31 December 2007	31 December 2006	***Change***
Current account and savings balances	**£m**	£m	***%***
Bank savings	**41,976**	36,417	***15***
C&G deposits	**14,861**	14,621	***2***
Wealth management	**4,939**	4,402	***12***
UK Retail Banking savings	**61,776**	55,440	***11***
Current accounts	**20,305**	20,221	***-***
Total customer deposits	**82,081**	75,661	***8***

UK RETAIL BANKING (continued)

The Group has delivered good levels of mortgage growth, focusing on prime mortgage business and seeking to maintain economic returns. However, as we have previously indicated, our market share of net new mortgage lending in the second half of the year was below our outstanding stock position, reflecting our continued focus on writing value-creating business. The Group continues to focus on those segments of the mortgage market where value can be created while adopting a conservative approach to credit risk. As a result of our focus on managing for value and the recent marketwide increase in interest spreads, new business net interest margins have strengthened. Recent levels of mortgage allocations have been stronger and we expect this to translate into robust balance growth as we move into 2008.

Gross new mortgage lending for the Group totalled £29.4 billion (2006: £27.6 billion). Mortgage balances outstanding increased by 7 per cent to £102.7 billion and net new lending totalled £6.7 billion, resulting in a market share of net new lending of approximately 6.2 per cent.

We have maintained our market leadership position in personal loans, despite tightened credit criteria and a slowdown in consumer demand. Unsecured consumer credit balances were broadly flat with personal loan balances outstanding at 31 December 2007 marginally higher at £11.2 billion, and credit card balances slightly lower at £6.6 billion.

Expanding the customer franchise

In addition to the strong growth in product sales from existing customers, the Group has continued to make progress in expanding its customer franchise. Current account recruitment increased by 17 per cent, compared with last year, supported by the range of added value current accounts, in particular the Silver Account focusing on foreign nationals. During 2007, the Group opened more than 1 million new current accounts.

Wealth Management continues to make good progress with its expansion plans, and over 260 advisers have now been trained on an enhanced wealth management offer comprising private banking, open architecture portfolio management, retirement planning, insurance and estate planning services. As a result, new Investment Portfolio cases increased by 42 per cent and overall wealth management clients increased by 11 per cent. Total new assets under management increased by 42 per cent and wealth management banking deposits grew by 12 per cent.

In June 2007, the Group launched the Lloyds TSB Airmiles Duo account, a new, innovative and exclusive credit card that offers a ‘two in one’ easy to manage account, with one PIN, one statement and two cards, an American Express and a MasterCard on which customers can earn Airmiles. The demand for this new product has been extremely strong, and over 700,000 cards have been issued to a generally more transactional, high quality, customer segment. As a result, Lloyds TSB was the UK market leader in new credit card issuance during 2007, and now has the largest and fastest growing loyalty credit card programme in the UK.

UK RETAIL BANKING (continued)

Improving productivity and efficiency

We have continued to make significant progress in reducing levels of administration and processing work carried out in branches and, as a result, we have increased the number of dedicated customer facing branch network staff by some 4,000 over the last 2 years. Over the same period, branch network staff time spent on back office administration work has reduced from approximately 35 per cent to around 5 per cent. This has enabled us to increase our focus on meeting our customers' needs and has supported the substantially improved branch network sales productivity and service efforts. These improvements have led to the retail banking cost:income ratio, excluding the impact of the settlement of overdraft claims, improving to 45.7 per cent, from 47.0 per cent last year.

In Telephone Banking we have continued to invest in our market leading speech recognition technology which has supported significant growth in the number of customers using our automated service. This, combined with further improvements in the efficiency of our contact centre operations, has led to all customer service calls now being answered from UK based centres.

Impairment levels slightly decreased

Impairment losses on loans and advances decreased by £14 million, or 1 per cent, to £1,224 million, largely reflecting a reduction in the level of customer insolvencies and the quality of new lending. In addition, collections procedures continue to improve, a particularly important competitive advantage in a slowing consumer environment, and we achieved better than assumed recoveries. The impairment charge as a percentage of average lending improved to 1.10 per cent, compared to 1.18 per cent last year. Over 99 per cent of new personal loans and 89 per cent of new credit cards sold during 2007 were to existing customers, where the Group has a better understanding of an individual customer's total financial position. The level of arrears in the personal loan and credit card portfolios reduced during 2007, whilst overdraft arrears remained stable.

Mortgage credit quality remains excellent with the impairment charge remaining at a low level of £18 million, or 2 basis points of average mortgage lending. Arrears in the mortgage business have also fallen. In Cheltenham & Gloucester, the average indexed loan-to-value ratio on the mortgage portfolio was 43 per cent, and the average loan-to-value ratio for new mortgages and further advances written during 2007 was 63 per cent. At 31 December 2007, only 1.7 per cent of balances had an indexed loan-to-value ratio in excess of 95 per cent. We extensively stress-test our lending to changes in macroeconomic conditions and we remain very confident in the quality of our mortgage portfolio.

INSURANCE AND INVESTMENTS

Excluding volatility and profit on disposal of businesses	**2007**	2006	***Change***
	£m	£m	***%***
Net interest income	**68**	56	***21***
Other income	**1,900**	1,740	***9***
Total income	**1,968**	1,796	***10***
Insurance claims	**(302)**	(200)	***(51)***
Total income, net of insurance claims	**1,666**	1,596	***4***
Operating expenses	**(636)**	(646)	***2***
Insurance grossing adjustment (page 13)	**26**	23	***13***
Profit before tax	**1,056**	973	***9***
Profit before tax analysis			
Life, pensions and OEICs			
New business profit – life and pensions	**163**	171	***(5)***
New business loss – OEICs	**(22)**	(24)	***8***
Existing business	**551**	384	***43***
Expected return on shareholders' net assets	**192**	134	***43***
Impact of surplus capital repatriation	**-**	36	
	884	701	***26***
General insurance	**128**	243	***(47)***
Scottish Widows Investment Partnership	**44**	29	***52***
Profit before tax	**1,056**	973	***9***
Present value of new business premiums (PVNBP)	**10,424**	9,740	***7***
PVNBP new business margin (EEV basis)	**3.1%**	3.6%	
Post-tax return on embedded value (EEV basis, page 50, note 20)	**9.9%**	9.3%	

Key highlights

- **Strong profit performance**. Profit before tax increased by 9 per cent to £1,056 million. Adjusting for the impact of surplus capital repatriation, profit before tax increased by 13 per cent.
- **Good income growth and excellent cost control**. Income, net of insurance claims and adjusting for the impact of surplus capital repatriation, increased by 7 per cent. Operating expenses decreased by 2 per cent.
- **Good sales performance**. 7 per cent increase in Scottish Widows' present value of new business premiums. Strong progress in increasing bancassurance sales, up 20 per cent. Good performance in the sale of protection products, corporate pensions and retirement income products.
- **Improved returns**. On an EEV basis, the post-tax return on embedded value increased to 9.9 per cent. New business margin was robust at 3.1 per cent.
- **Robust capital position**. Scottish Widows continues to deliver improving capital efficiency and self-financing growth, and a further £1.9 billion of capital was repatriated to the Group during 2007.
- **Increased weather related claims** of £113 million, largely relating to the severe flooding in the UK in June and July, contributed to a 47 per cent reduction in profit before tax in General Insurance.
- **Excellent performance in Scottish Widows Investment Partnership.** Profit before tax increased by 52 per cent reflecting higher margins and improved mix of external business.

INSURANCE AND INVESTMENTS (continued)

Scottish Widows life, pensions and OEICs

Profit before tax increased by £183 million, or 26 per cent, to £884 million. The effect of surplus capital repatriation to the Group has been to reduce investment earnings by a total of £36 million in 2007. Adjusting 2006 for this, profit before tax increased by 33 per cent.

Life and pensions new business profit, on an IFRS basis and excluding volatility, reduced by 5 per cent to £163 million reflecting a change in the mix of investment products sold through the branch network towards non-embedded value accounted products. Total existing business profit grew by 43 per cent to £551 million, partly reflecting increased profits from the growing OEIC portfolio, improved cost management and a reduction in adverse assumption changes compared to 2006. The expected return on shareholders' net assets increased by 43 per cent to £192 million as a result of a higher volume of free assets, driven by strong equity markets and the impact of regulatory changes in 2006, and a higher expected rate of return.

During 2007, Scottish Widows has continued to make strong progress in each of its key business priorities: to maximise bancassurance success; to profitably grow IFA sales; to improve service and operational efficiency; and to optimise capital management.

Maximising bancassurance success

In 2007, the value of Scottish Widows' bancassurance new business premiums increased by 20 per cent, building on the success of the simplified product range for distribution through the Lloyds TSB branch network, Commercial Banking and Wealth Management channels. Sales of protection products were particularly strong. A new branch network creditor insurance and protection product, which replaced an externally provided creditor product, has led to the significant increase in protection sales during 2007. In addition, Scottish Widows launched a new protection product, 'Protection for Life' towards the end of 2006, which has performed very well. We have continued to deliver good sales of OEICs following the more than doubling of sales in 2006.

Profitably growing IFA sales

Sales through the IFA distribution channel increased by 2 per cent, following record A-day related sales levels in 2006. Scottish Widows has continued to focus on the more profitable business areas within the IFA market. Sales of savings and investment products were lower as we chose not to compete in areas which deliver unsatisfactory returns, although this was partly offset by good growth in OEIC sales. Corporate pensions volumes remained strong following excellent growth last year and our managed fund business also showed good improvement.

INSURANCE AND INVESTMENTS (continued)

Present value of new business premiums (PVNBP)	**2007**	2006	***Change***
	£m	£m	***%***
Life and pensions:			
Protection	**960**	232	***314***
Savings and investments	**913**	1,300	***(30)***
Individual pensions	**2,073**	2,219	***(7)***
Corporate and other pensions	**2,141**	1,961	***9***
Retirement income	**1,044**	960	***9***
Managed fund business	**486**	348	***40***
Life and pensions	**7,617**	7,020	***9***
OEICs	**2,807**	2,720	***3***
Life, pensions and OEICs	**10,424**	9,740	***7***
Single premium business	**8,375**	7,321	***14***
Regular premium business	**2,049**	2,419	***(15)***
Life, pensions and OEICs	**10,424**	9,740	***7***
Bancassurance	**4,096**	3,421	***20***
Independent financial advisers	**5,817**	5,706	***2***
Direct	**511**	613	***(17)***
Life, pensions and OEICs	**10,424**	9,740	***7***

Improving service and operational efficiency

The business has made continued improvements in service and operational efficiencies, and the benefits can be seen in a reduction of expenses by 2 per cent compared to prior year, notwithstanding the introduction of a number of new products. In addition, customer satisfaction is at its highest ever level. Scottish Widows received a number of awards for service quality and product innovation, including ‘Best Individual Pensions Provider’ at the Financial Adviser awards whilst maintaining its top quartile position for lowest servicing and acquisition costs per policy.

Optimising capital management

Scottish Widows has maintained its strong focus on improving capital management. During 2007 Scottish Widows continued to deliver a more capital efficient product profile and improved internal rates of return. The post-tax return on embedded value, on an EEV basis, increased to 9.9 per cent, from 9.3 per cent last year. During 2007, £1.9 billion of capital was repatriated to the Group, giving a total capital repatriation of over £3.6 billion since the beginning of 2005.

INSURANCE AND INVESTMENTS (continued)

Results on a European Embedded Value (EEV) basis

Lloyds TSB continues to report under IFRS, however, in line with industry best practice, the Group provides supplementary financial reporting for Scottish Widows on an EEV basis. The Group believes that EEV represents the most appropriate measure of long-term value creation in life assurance and investment businesses.

	2007 Life, pensions and OEICs £m	2006 Life, pensions and OEICs £m	***Change %***
New business profit	**326**	346	***(6)***
Existing business			
- Expected return	**337**	403	
- Experience variances	**78**	69	
- Assumption changes	**(45)**	(133)	
	370	339	***9***
Expected return on shareholders' net assets	**207**	131	***58***
Profit before tax, adjusted for capital repatriation*	**903**	816	***11***
Impact of surplus capital repatriation to Group	**-**	36	
Profit before tax*	**903**	852	***6***
New business margin (PVNBP)	**3.1%**	3.6%	
Embedded value (year end)	**£5,365m**	£6,413m	
Post-tax return on embedded value*	**9.9%**	9.3%	

*Excluding volatility and other items (page 36, note 2).

Adjusting for the impact of capital repatriation, EEV profit before tax from the Group's life, pensions and OEICs business increased by 11 per cent to £903 million.

New business profit fell by £20 million, or 6 per cent, to £326 million, largely reflecting the impact of a higher risk-free discount rate and changes in other economic assumptions applied to new business. This was however offset by a corresponding credit to the expected return on shareholders' net assets.

Existing business profit increased by 9 per cent. Expected return decreased by 16 per cent to £337 million, primarily reflecting a lower shareholder benefit this year from the reduction in the value of realistic balance sheet liabilities and the impact of regulatory changes in 2006. Positive experience variances were driven by higher annuity profits from Abbey Life. Overall lapse experience was broadly in line with the Group's expectations, as higher lapse experience in the life and pensions business was broadly offset by a favourable experience in OEICs. Assumption changes primarily reflect changes to the longer term lapse assumptions for both life and pensions business and OEICs. The expected return on shareholders' net assets increased by £76 million, as a result of a higher volume of free assets, driven by strong equity markets and the impact of regulatory changes in 2006, and a higher expected rate of return.

INSURANCE AND INVESTMENTS (continued)

Results on a European Embedded Value (EEV) basis

Overall the post-tax return on embedded value increased to 9.9 per cent from 9.3 per cent. Scottish Widows maintained a strong new business margin of 3.1 per cent. Individual new business product margins remained broadly stable. The overall new business margin fell by 50 basis points however, as a result of an adverse impact from a higher risk-free discount rate and changes in other economic assumptions applied to new business and the shift in product mix resulting from the insourcing of a new branch network creditor insurance and protection product. This product generates a lower new business margin, but delivers good levels of value for the Group.

INSURANCE AND INVESTMENTS (continued)

Scottish Widows Investment Partnership

Pre-tax profit from Scottish Widows Investment Partnership (SWIP) increased by 52 per cent to £44 million, reflecting increased profitability resulting from higher margins and an improved mix of external business, a key strategic priority for SWIP. Over the last 12 months, SWIP's assets under management decreased by £4.1 billion to £97.6 billion, reflecting the decision by the Trustees of the Lloyds TSB pension schemes to move £5.7 billion into external passive management. As a result, institutional funds under management reduced by £5.0 billion. The net movement in retail funds, net of expenses and commissions, was an increase of £2.9 billion.

Movements in funds under management

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

	2007	2006
	£bn	£bn
Opening funds under management	**105.7**	97.5
Movement in Retail Funds		
Premiums	**11.7**	11.7
Claims	**(4.8)**	(3.6)
Surrenders	**(6.4)**	(5.4)
Net inflow of business	**0.5**	2.7
Investment return, expenses and commission	**2.4**	6.0
Net movement	**2.9**	8.7
Movement in Institutional Funds		
Lloyds TSB pension schemes	**(5.7)**	-
Other institutional funds	**(0.6)**	(1.3)
Investment return, expenses and commission	**1.3**	1.5
Net movement	**(5.0)**	0.2
Proceeds from sale of Abbey Life	**1.0**	-
Dividends and surplus capital repatriation	**(1.9)**	(0.7)
Closing funds under management	**102.7**	105.7
Managed by SWIP	**97.6**	101.7
Managed by third parties	**5.1**	4.0
Closing funds under management	**102.7**	105.7

Including assets under management within our UK Wealth Management and International Private Banking businesses, Groupwide funds under management decreased by 3 per cent to £122.8 billion.

INSURANCE AND INVESTMENTS (continued)

General insurance

	2007	2006	***Change***
	£m	£m	***%***
Commission receivable	**648**	629	***3***
Commission payable	**(692)**	(664)	***(4)***
Underwriting income (net of reinsurance)	**591**	600	***(2)***
Other income	**37**	35	***6***
Net operating income	**584**	600	***(3)***
Claims paid on insurance contracts (net of reinsurance)	**(302)**	(200)	***(51)***
Operating income, net of claims	**282**	400	***(30)***
Operating expenses	**(154)**	(157)	***2***
Profit before tax	**128**	243	***(47)***
Claims ratio	**49%**	32%	
Combined ratio	**93%**	80%	

Profit before tax from our general insurance operations decreased by £115 million, to £128 million, largely as a result of a £113 million increase in weather related claims, primarily reflecting severe flooding in the UK in June and July. Net operating income decreased by 3 per cent whilst costs were reduced by 2 per cent.

Net operating income decreased by £16 million, or 3 per cent, as growth in home and loan protection income was more than offset by lower motor insurance income, increased reinsurance costs and the run-off from the legacy health portfolio. Our continued focus on improving operational efficiency and improving the effectiveness of our marketing spend has resulted in a £3 million, or 2 per cent, reduction in operating costs, whilst also continuing to improve processing efficiency.

Overall sales performance has been good with an 8 per cent increase in new business gross written premiums (GWP). Home insurance sales through the branch network continue to perform well with 14 per cent growth in new business GWP. We have, however, scaled back our participation in the distribution of home insurance through direct channels, as a result of the increasingly competitive pricing in that area of the market. During the year we continued to invest in product development, with loan protection and home insurance products both securing industry leading external quality ratings.

Income, net of claims, was £118 million lower, largely as a result of the increased extreme weather related claims, following a benign period in 2006. As a result, overall claims increased by £102 million, and key underwriting ratios were significantly affected with an increase in the claims ratio to 49 per cent, and an increase in the combined ratio to 93 per cent. Adjusting for the extreme weather related claims, the claims ratio improved, reflecting both a favourable claims experience in our home insurance underwriting and the impact of recent investment in improving the efficiency of our claims processing.

The business continues to invest in the development of its Corporate Partnership distribution arrangements and the performance of the Pearl business acquired in 2006 has exceeded our initial expectations.

WHOLESALE AND INTERNATIONAL BANKING

Excluding profit on disposal of businesses	**2007**	2006	***Change***
	£m	£m	***%***
Net interest income	**2,518**	2,177	***16***
Other income	**1,773**	2,035	***(13)***
Total income	**4,291**	4,212	***2***
Operating expenses	**(2,282)**	(2,264)	***(1)***
Trading surplus	**2,009**	1,948	***3***
Impairment	**(572)**	(308)	***(86)***
Profit before tax	**1,437**	1,640	***(12)***
Cost:income ratio	**53.2%**	53.8%	
Cost:income ratio, excluding market dislocation	**50.9%**	53.8%	
Post-tax return on average risk-weighted assets	**1.13%**	1.38%	
Total assets	**£163.3bn**	£147.8bn	***10***
Risk-weighted assets	**£105.1bn**	£91.8bn	***14***
Customer deposits	**£72.3bn**	£61.2bn	***18***
Profit before tax by business unit			
Corporate Markets			
- Before impact of market dislocation	**1,132**	1,030	***10***
- Impact of market dislocation	**(280)**	-	
	852	1,030	***(17)***
Commercial Banking	**451**	398	***13***
Asset Finance	**60**	113	***(47)***
International Banking and other businesses	**74**	99	***(25)***
	1,437	1,640	***(12)***

Key highlights

- **Overall profits impacted by turbulence in global financial markets.** Whilst the division has limited exposure to assets affected by current capital market uncertainties, the impact of recent market dislocation has been to reduce profit before tax in 2007 by £280 million.
- **Continued relationship banking momentum**. Excluding the impact of market dislocation, profit before tax increased by 5 per cent.
- **Further good progress in expanding our Corporate Markets business**, with an 18 per cent increase in Corporate Markets income supporting a 10 per cent increase in profit before tax, excluding the impact of market dislocation. Cross-selling income in Corporate Markets increased by 35 per cent.
- **Continued strong franchise growth in Commercial Banking**, with an 8 per cent growth in income and a 13 per cent growth in profit before tax. Lloyds TSB has retained its leading position as the bank of choice for start-up businesses.
- **Continued tight credit control in Asset Finance,** and a slowdown in demand in the consumer lending portfolio, led to a 47 per cent reduction in profit before tax.
- **Strong risk management and good asset quality**, despite a rise of £264 million in impairment losses, largely as a result of the £92 million impact of market dislocation, a £28 million provision reflecting the impact of the 2007 Finance Act on the division's leasing business, and a lower level of corporate releases and recoveries during the year.

WHOLESALE AND INTERNATIONAL BANKING (continued)

In **Wholesale and International Banking**, the Group has continued to make significant progress in its strategy to develop the Group's strong corporate and small to medium business customer franchises and, in doing so, become the best UK mid-market focused wholesale bank. The division has continued to make substantial progress in its relationship banking businesses. In Commercial Banking, strong growth in business volumes, further customer franchise improvements and good progress in improving operational efficiency have resulted in continued strong profit growth. In Corporate Markets, further good progress has been made in developing our relationship banking franchise supported by a strong cross-selling performance.

Overall, the division's profit before tax decreased by 12 per cent, to £1,437 million, reflecting the £280 million reduction in profits as a result of market dislocation. Excluding this impact, profit before tax increased by 5 per cent, with a continued strong performance in our relationship banking businesses. This has generated overall income growth of 6 per cent, driven by strong Corporate Markets and Commercial Banking income growth of 18 per cent and 8 per cent respectively. This exceeded cost growth of 1 per cent, leading to a reduction in the cost:income ratio to 50.9 per cent, from 53.8 per cent last year. Trading surplus, excluding the impact of market dislocation, increased by £249 million, or 13 per cent, to £2,197 million.

The charge for impairment losses on loans and advances increased by £264 million to £572 million, largely as a result of the £92 million impact of market dislocation, a one-off £28 million impairment charge reflecting a reduction in rental income from operating lease activities following the corporation tax rate change included in the 2007 Finance Act, a lower level of releases and recoveries during the year and the impact of recent strong growth in the corporate lending portfolio. Overall corporate and SME asset quality remains good although we continue to expect some normalisation in the impairment charge over the next few years. We do believe, however, that we remain relatively well positioned as a result of our prudent credit management policy.

WHOLESALE AND INTERNATIONAL BANKING (continued)

Corporate Markets

	2007	2006	***Change***
	£m	£m	***%***
Net interest income	**1,104**	806	***37***
Other income			
- Before market dislocation	**808**	821	***(2)***
- Market dislocation	**(188)**	-	
	620	821	***(24)***
Total income	**1,724**	1,627	***6***
Operating expenses	**(632)**	(615)	***(3)***
Trading surplus	**1,092**	1,012	***8***
Impairment			
- Before market dislocation	**(148)**	18	
- Market dislocation	**(92)**	-	
	(240)	18	
Profit before tax	**852**	1,030	***(17)***

In Corporate Markets, profit before tax fell by 17 per cent, however, excluding the impact of market dislocation and the 2007 Finance Act, profit before tax increased by 13 per cent. On this basis, income increased by 18 per cent, supported by continued high levels of cross-selling income, up 35 per cent, strong growth in corporate lending and a higher level of income from venture capital investments. The strong growth in lending was supported by an increase of £4.7 billion in Group lending to property companies, to £17.6 billion. Two-thirds of this lending portfolio is commercial property lending supporting our existing customer franchise and reflects a well-spread nationwide portfolio. We adopt conservative credit criteria and the indexed loan-to-value of the portfolio is approximately 62 per cent. One third of the portfolio is residential lending, over half of which is to local authority backed public housing.

Operating expenses increased by 3 per cent to £632 million, reflecting further investment in people to support ongoing business growth. The trading surplus, excluding market dislocation, increased by 26 per cent. The impairment charge of £240 million includes £92 million from the impact of market dislocation and the £28 million one-off charge relating to the impact of the 2007 Finance Act on the division’s leasing business. Excluding these items, the underlying increase in the impairment charge reflects lower levels of releases and recoveries, recent strong growth in corporate customer lending and impairments relating to two special situations.

WHOLESALE AND INTERNATIONAL BANKING (continued)

Commercial Banking

	2007	2006	***Change***
	£m	£m	***%***
Net interest income	**890**	821	***8***
Other income	**429**	397	***8***
Total income	**1,319**	1,218	***8***
Operating expenses	**(769)**	(727)	***(6)***
Trading surplus	**550**	491	***12***
Impairment	**(99)**	(93)	***(6)***
Profit before tax	**451**	398	***13***

Profit before tax in Commercial Banking grew by £53 million, or 13 per cent, reflecting strong growth in business volumes, further improvements in growing the Commercial Banking customer franchise and progress in improving operational efficiency. Income increased by 8 per cent to £1,319 million, reflecting strong growth in lending and deposit balances, whilst costs were 6 per cent higher, as a result of increased investment to improve the operating platform. Commercial Banking continued to develop and grow its customer franchise strongly, with customer recruitment of 120,000 during 2007, reflecting its market-leading position in the start-up market with a market share of 21 per cent. We also made good progress in continuing to attract customers 'switching' from other financial services providers. Lloyds TSB Commercial Finance has continued to improve its strong market position, with a market share of approximately 20 per cent, measured by client numbers. Asset quality in the Commercial Banking portfolios remains good with impairment charges as a percentage of average lending reducing by 7 basis points to 0.60 per cent, partly reflecting our move to increase levels of secured lending.

Asset Finance

	2007	2006	***Change***
	£m	£m	***%***
Net interest income	**299**	331	***(10)***
Other income	**472**	529	***(11)***
Total income	**771**	860	***(10)***
Operating expenses	**(483)**	(508)	***5***
Trading surplus	**288**	352	***(18)***
Impairment	**(228)**	(239)	***5***
Profit before tax	**60**	113	***(47)***

Profit before tax in Asset Finance decreased by 47 per cent to £60 million, largely reflecting continued tight credit criteria and a slowdown in demand in the consumer lending portfolio which has led to a reduction in the level of new business underwritten. As a result, income decreased by £89 million, or 10 per cent. Costs were 5 per cent lower and the impairment charge decreased by £11 million to £228 million, reflecting the recent tightening of credit criteria, improved collections procedures and lower balances outstanding, which offset an increase in arrears. Conditions in the Motor Finance business remain challenging. New business volumes have reduced, reflecting the marketwide slowdown in consumer demand, and we have sought to avoid the structural contraction in interest margins. In Personal Finance, new business volumes have risen modestly in a fiercely competitive market. Our Contract Hire business, Autolease, has performed well by continuing to leverage its strong market position and efficient operation.

CONSOLIDATED INCOME STATEMENT – STATUTORY

	2007	2006
	£m	£m
Interest and similar income	16,874	14,108
Interest and similar expense	(10,775)	(8,779)
Net interest income	6,099	5,329
Fee and commission income	3,224	3,116
Fee and commission expense	(600)	(638)
Net fee and commission income	2,624	2,478
Net trading income	3,123	6,341
Insurance premium income	5,430	4,719
Other operating income	952	806
Other income	12,129	14,344
Total income	18,228	19,673
Insurance claims	(7,522)	(8,569)
Total income, net of insurance claims	10,706	11,104
Operating expenses	(5,567)	(5,301)
Trading surplus	5,139	5,803
Impairment	(1,796)	(1,555)
Profit on sale of businesses	657	-
Profit before tax	4,000	4,248
Taxation	(679)	(1,341)
Profit for the year	3,321	2,907
Profit attributable to minority interests	32	104
Profit attributable to equity shareholders	3,289	2,803
Profit for the year	3,321	2,907
Basic earnings per share	58.3p	49.9p
Diluted earnings per share	57.9p	49.5p
Dividend per share for the year*	35.9p	34.2p
Dividend for the year*	£2,026m	£1,928m

*The total dividend for the year represents the interim dividend paid in October 2007 and the final dividend which will be paid and accounted for in May 2008.

CONSOLIDATED BALANCE SHEET – STATUTORY

	31 December 2007	31 December 2006
Assets	**£m**	£m
Cash and balances at central banks	**4,330**	1,898
Items in course of collection from banks	**1,242**	1,431
Trading and other financial assets at fair value through profit or loss	**57,911**	67,695
Derivative financial instruments	**8,659**	5,565
Loans and advances to banks	**34,845**	40,638
Loans and advances to customers	**209,814**	188,285
Available-for-sale financial assets	**20,196**	19,178
Investment property	**3,722**	4,739
Goodwill	**2,358**	2,377
Value of in-force business	**2,218**	2,723
Other intangible assets	**149**	138
Tangible fixed assets	**2,839**	4,252
Other assets	**5,063**	4,679
Total assets	**353,346**	343,598
Equity and liabilities		
Deposits from banks	**39,091**	36,394
Customer accounts	**156,555**	139,342
Items in course of transmission to banks	**668**	781
Trading and other liabilities at fair value through profit or loss	**3,206**	1,184
Derivative financial instruments	**7,582**	5,763
Debt securities in issue	**51,572**	54,118
Liabilities arising from insurance contracts and participating investment contracts	**38,063**	41,445
Liabilities arising from non-participating investment contracts	**18,197**	24,370
Unallocated surplus within insurance businesses	**554**	683
Other liabilities	**9,690**	10,985
Retirement benefit obligations	**2,144**	2,462
Current tax liabilities	**484**	817
Deferred tax liabilities	**948**	1,416
Other provisions	**209**	259
Subordinated liabilities	**11,958**	12,072
Total liabilities	**340,921**	332,091
Equity		
Share capital	**1,432**	1,429
Share premium account	**1,298**	1,266
Other reserves	**(60)**	336
Retained profits	**9,471**	8,124
Shareholders' equity	**12,141**	11,155
Minority interests	**284**	352
Total equity	**12,425**	11,507
Total equity and liabilities	**353,346**	343,598

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – STATUTORY

	Attributable to equity shareholders				
	Share capital and premium £m	Other reserves £m	Retained profits £m	Minority interests £m	Total £m
Balance at 1 January 2006	2,590	395	7,210	435	10,630
Movements in available-for-sale financial assets, net of tax:					
- change in fair value	-	(10)	-	-	(10)
- transferred to income statement in respect of disposals	-	(21)	-	-	(21)
Movement in cash flow hedges, net of tax	-	1	-	-	1
Currency translation differences	-	(29)	-	(4)	(33)
Net income recognised directly in equity	-	(59)	-	(4)	(63)
Profit for the year	-	-	2,803	104	2,907
Total recognised income for the year	-	(59)	2,803	100	2,844
Dividends	-	-	(1,919)	(32)	(1,951)
Purchase/sale of treasury shares	-	-	(35)	-	(35)
Employee share option schemes:					
- value of employee services	-	-	65	-	65
- proceeds from shares issued	105	-	-	-	105
Repayment of capital to minority shareholders	-	-	-	(151)	(151)
Balance at 31 December 2006	2,695	336	8,124	352	11,507
Movements in available-for-sale financial assets, net of tax:					
- change in fair value	**-**	**(436)**	**-**	**-**	**(436)**
- transferred to income statement in respect of disposals	**-**	**(5)**	**-**	**-**	**(5)**
- transferred to income statement in respect of impairment	**-**	**49**	**-**	**-**	**49**
- disposal of businesses	**-**	**(6)**	**-**	**-**	**(6)**
Movement in cash flow hedges, net of tax	**-**	**(15)**	**-**	**-**	**(15)**
Currency translation differences	**-**	**17**	**-**	**(1)**	**16**
Net income recognised directly in equity	**-**	**(396)**	**-**	**(1)**	**(397)**
Profit for the year	**-**	**-**	**3,289**	**32**	**3,321**
Total recognised income for the year	**-**	**(396)**	**3,289**	**31**	**2,924**
Dividends	**-**	**-**	**(1,957)**	**(19)**	**(1,976)**
Purchase/sale of treasury shares	**-**	**-**	**(1)**	**-**	**(1)**
Employee share option schemes:					
- value of employee services	**-**	**-**	**16**	**-**	**16**
- proceeds from shares issued	**35**	**-**	**-**	**-**	**35**
Repayment of capital to minority shareholders	**-**	**-**	**-**	**(80)**	**(80)**
Balance at 31 December 2007	**2,730**	**(60)**	**9,471**	**284**	**12,425**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – STATUTORY

	2007	2006
	£m	£m
Profit before tax	**4,000**	4,248
Adjustments for:		
Change in operating assets	**(16,982)**	(31,995)
Change in operating liabilities	**21,541**	33,069
Non-cash and other items	**2,784**	1,555
Tax paid	**(859)**	(798)
Net cash provided by operating activities	**10,484**	6,079
Cash flows from investing activities		
Purchase of available-for-sale financial assets	**(21,667)**	(23,448)
Proceeds from sale and maturity of available-for-sale financial assets	**19,468**	18,106
Purchase of fixed assets	**(1,334)**	(1,724)
Proceeds from sale of fixed assets	**982**	1,257
Acquisition of businesses, net of cash acquired	**(8)**	(20)
Disposal of businesses, net of cash disposed	**1,476**	936
Net cash used in investing activities	**(1,083)**	(4,893)
Cash flows from financing activities		
Dividends paid to equity shareholders	**(1,957)**	(1,919)
Dividends paid to minority interests	**(19)**	(32)
Interest paid on subordinated liabilities	**(709)**	(713)
Proceeds from issue of subordinated liabilities	**-**	1,116
Proceeds from issue of ordinary shares	**35**	105
Repayment of subordinated liabilities	**(300)**	(759)
Repayment of capital to minority shareholders	**(80)**	(151)
Net cash used in financing activities	**(3,030)**	(2,353)
Effects of exchange rate changes on cash and cash equivalents	**82**	(148)
Change in cash and cash equivalents	**6,453**	(1,315)
Cash and cash equivalents at beginning of year	**25,438**	26,753
Cash and cash equivalents at end of year	**31,891**	25,438

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.

CONDENSED SEGMENTAL ANALYSIS – STATUTORY (unaudited)

Lloyds TSB Group is a leading UK-based financial services group, providing a wide range of banking and financial services in the UK and in certain locations overseas. The Group's activities are organised into three segments: UK Retail Banking, Insurance and Investments and Wholesale and International Banking. Central group items includes the funding cost of certain acquisitions less earnings on capital, central costs and accruals for payment to the Lloyds TSB Foundations.

Services provided by UK Retail Banking encompass the provision of banking and other financial services to personal customers, private banking and mortgages. Insurance and Investments offers life assurance, pensions and savings products, general insurance and asset management services. Wholesale and International Banking provides banking and related services for major UK and multinational companies, banks and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages the Group's activities in financial markets and provides banking and financial services overseas.

Year ended 31 December 2007	**UK Retail Banking**	**General insurance**	**Life, pensions and asset management**	**Insurance and Investments**	**Wholesale and International Banking**	**Central group items***	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Interest and similar income*	**8,018**	**23**	**1,040**	**1,063**	**9,834**	**(2,041)**	**16,874**
Interest and similar expense*	**(4,235)**	**-**	**(527)**	**(527)**	**(7,316)**	**1,303**	**(10,775)**
Net interest income	**3,783**	**23**	**513**	**536**	**2,518**	**(738)**	**6,099**
Other income (net of fee and commission expense)	**1,797**	**554**	**7,643**	**8,197**	**1,773**	**362**	**12,129**
Total income	**5,580**	**577**	**8,156**	**8,733**	**4,291**	**(376)**	**18,228**
Insurance claims	**-**	**(302)**	**(7,220)**	**(7,522)**	**-**	**-**	**(7,522)**
Total income, net of insurance claims	**5,580**	**275**	**936**	**1,211**	**4,291**	**(376)**	**10,706**
Operating expenses	**(2,624)**	**(154)**	**(501)**	**(655)**	**(2,282)**	**(6)**	**(5,567)**
Trading surplus (deficit)	**2,956**	**121**	**435**	**556**	**2,009**	**(382)**	**5,139**
Impairment	**(1,224)**	**-**	**-**	**-**	**(572)**	**-**	**(1,796)**
Profit on sale of businesses	**-**	**-**	**272**	**272**	**385**	**-**	**657**
Profit (loss) before tax	**1,732**	**121**	**707**	**828**	**1,822**	**(382)**	**4,000**
External revenue	**9,132**	**1,235**	**8,854**	**10,089**	**10,082**	**300**	**29,603**
Inter-segment revenue*	**1,012**	**49**	**181**	**230**	**1,559**	**(2,801)**	**-**
Segment revenue	**10,144**	**1,284**	**9,035**	**10,319**	**11,641**	**(2,501)**	**29,603**

*Central group items on this and the following page includes inter-segment consolidation adjustments within interest and similar income and within interest and similar expense as follows: interest and similar income £(3,138) million (2006: £(3,241) million); interest and similar expense £3,138 million (2006: £3,241 million). There is no impact on net interest income. Similarly, Central group items includes inter-segment revenue adjustments of £(4,103) million (2006: £(4,102) million).

CONDENSED SEGMENTAL ANALYSIS – STATUTORY (unaudited)

Year ended 31 December 2006	UK Retail Banking £m	General Insurance £m	Life, pensions and asset management £m	Insurance and Investments £m	Wholesale and International Banking £m	Central group items* £m	Total £m
Interest and similar income*	6,913	24	820	844	8,598	(2,247)	14,108
Interest and similar expense*	(3,271)	-	(741)	(741)	(6,421)	1,654	(8,779)
Net interest income	3,642	24	79	103	2,177	(593)	5,329
Other income (net of fee and commission expense)	1,621	594	9,893	10,487	2,035	201	14,344
Total income	5,263	618	9,972	10,590	4,212	(392)	19,673
Insurance claims	-	(200)	(8,369)	(8,569)	-	-	(8,569)
Total income, net of insurance claims	5,263	418	1,603	2,021	4,212	(392)	11,104
Operating expenses	(2,476)	(157)	(481)	(638)	(2,264)	77	(5,301)
Trading surplus (deficit)	2,787	261	1,122	1,383	1,948	(315)	5,803
Impairment	(1,238)	-	-	-	(308)	(9)	(1,555)
Profit (loss) before tax	1,549	261	1,122	1,383	1,640	(324)	4,248
External revenue	8,136	1,249	10,888	12,137	8,659	158	29,090
Inter-segment revenue*	698	19	199	218	2,276	(3,192)	-
Segment revenue	8,834	1,268	11,087	12,355	10,935	(3,034)	29,090

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1. Accounting policies, presentation and estimates

The 2007 results have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The accounting policies adopted in the preparation of these results are unchanged from those disclosed in the Group's consolidated financial statements as at and for the year ended 31 December 2006 ('2006 Annual Report and Accounts') copies of which can be found on the Group's website at www.investorrelations.lloydstsb.com/ir/company_reports_page.asp or are available upon request from the Company Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN.

The following pronouncements relevant to the Group are applicable for the year ended 31 December 2007:

Pronouncement	Nature of change	Effective date
IFRS 7 Financial Instruments: Disclosures	Consolidates financial instruments disclosures into a single standard and requires more detailed qualitative and quantitative disclosures about exposure to risks arising from financial instruments.	Annual periods beginning on or after 1 January 2007
Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures	Introduces additional disclosures of the objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and compliance with capital requirements.	Annual periods beginning on or after 1 January 2007

The relevant disclosures are included in the Group's consolidated financial statements for the year ended 31 December 2007.

2. Volatility

Banking volatility

Since the introduction of IFRS in 2005, in order to provide a clearer view of the underlying performance of the business, the Group has separately disclosed within Central group items the effects of marking-to-market derivatives held for risk management purposes. This amount, net of the effect of the Group's IAS 39 compliant hedge accounting relationships, was previously disclosed as banking volatility.

The use of fair values in financial reporting is now more widespread and there is a better understanding of their effects; consequently, in line with evolving best practice, the Group no longer considers it appropriate to disclose banking volatility separately. Divisions will continue to transfer, through the Group's internal transfer pricing arrangements, to Group Corporate Treasury (included in Central group items) the movements in the market value of hedging derivatives where the impact is not locally managed.

2. Volatility (continued)

Insurance volatility

The Group's insurance businesses have liability products that are supported by substantial holdings of investments, including equities, property and fixed interest investments, all of which have a volatile fair value. The value of the liabilities does not move exactly in line with changes in the fair value of the investments, yet IFRS requires that the changes in both the value of the liabilities and investments be reflected within the income statement. As these investments are substantial and movements in their fair value can have a significant impact on the profitability of the Insurance and Investments division, management believes that it is appropriate to disclose the division's results on the basis of an expected return in addition to the actual return. The difference between the actual return on these investments and the expected return based upon economic assumptions made at the beginning of the year is included within insurance volatility.

Changes in market variables also affect the realistic valuation of the guarantees and options embedded within products written in the Scottish Widows With Profit Fund, the value of the in-force business and the value of shareholders' funds. Fluctuations in these values caused by changes in market variables, including market spreads reflecting credit risk premia, are also included within insurance volatility. These market credit spreads represent the gap between the yield on corporate bonds and the yield on government bonds, and reflect the market's assessment of credit risk. Changes in the credit spreads affect the value of the in-force business asset in respect of the annuity portfolio.

The expected investment returns used to determine the normalised profit of the business, which are based on prevailing market rates and published research into historic investment return differentials, are set out below:

	2008	2007	2006
	%	%	%
Gilt yields (gross)	**4.55**	4.62	4.12
Equity returns (gross)	**7.55**	7.62	6.72
Dividend yield	**3.00**	3.00	3.00
Property return (gross)	**7.55**	7.62	6.72
Corporate bonds (gross)	**5.15**	5.22	4.72

During 2007, profit before tax included negative insurance volatility of £267 million, being a credit of £7 million to net interest income and a charge of £274 million to other income (2006: positive volatility of £84 million, being a credit of £2 million to net interest income and a credit of £82 million to other income). The effect of widening credit risk spreads and falling gilt values more than offset the favourable impact of a modest increase in equity values and changes in market consistent assumptions. During 2006 increases in equity values were partly offset by lower gilt values.

Policyholder interests volatility

As a result of the requirement under 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.

2. Volatility (continued)

Under IFRS, tax on policyholder investment returns is required to be included in the Group's tax charge rather than being offset against the related income, as it is in actual distributions made to policyholders. The impact is, therefore, to either increase or decrease profit before tax with a corresponding change in the tax charge. Other items classified within policyholder interests volatility include the effects of investment vehicles which are only majority owned by the long-term assurance funds. In the case of these vehicles, the Group's profit for the year includes the minorities' share of the profits earned. As set out below these amounts do not accrue to the equity holders, accordingly management believes a clearer representation of the underlying performance of the Group's life and pensions businesses is presented by excluding policyholder interests volatility.

	2007	2006
	£m	£m
Net interest income	**-**	(33)
Other income	**(233)**	359
Profit before tax	**(233)**	326
Taxation – policyholder	**243**	(222)
Minority interests	**(10)**	(104)
Profit attributable to equity shareholders	**-**	-

During 2007, profit before tax included negative policyholder interests volatility of £233 million, being a charge to other income (2006: positive volatility of £326 million, being a charge of £33 million to net interest income and a credit of £359 million to other income). In 2007, substantial policyholder tax losses have been generated as a result of a fall in property, gilt and bond values. These losses reduce future policyholder tax liabilities and have led to a policyholder tax credit during the year. Profits were recognised in 2006 as a result of positive market movements combined with realised gains in the holdings in property investment vehicles majority owned by the long-term assurance funds.

3. Mortgage lending

	2007	2006
Gross new mortgage lending	**£29.4bn**	£27.6bn
Market share of gross new mortgage lending	**8.1%**	8.0%
Redemptions	**£22.7bn**	£20.7bn
Market share of redemptions	**8.9%**	8.8%
Net new mortgage lending	**£6.7bn**	£6.9bn
Market share of net new mortgage lending	**6.2%**	6.3%
Mortgages outstanding (year end)*	**£102.0bn**	£95.3bn
Market share of mortgages outstanding	**8.5%**	8.8%

*****Excluding the effect of IFRS related adjustments in order to conform with industry statistics.

In Cheltenham & Gloucester, the average indexed loan-to-value ratio on the mortgage portfolio was 43 per cent (31 December 2006: 44 per cent), and the average loan-to-value ratio for new mortgages and further advances written during 2007 was 63 per cent (2006: 64 per cent). At 31 December 2007, only 1.7 per cent of balances had an indexed loan-to-value ratio in excess of 95 per cent.

4. Group net interest income

	2007	2006
	£m	£m
Banking margin		
Net interest income	**5,167**	4,914
Average interest-earning assets, excluding reverse repos	**185,022**	170,743
Net interest margin	**2.79%**	2.88%
Statutory basis		
Net interest income	**6,099**	5,329
Average interest-earning assets, excluding reverse repos	**248,233**	226,990
Net interest margin	**2.46%**	2.35%

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 addition, the Group's net interest margin is significantly affected by the accounting treatment of a number of Products and Markets and other products, principally those where funding costs are treated as an interest expense and related revenues are recognised within other income. In order to enhance comparability in the Group's banking net interest margin these items have been excluded in determining both net interest income and average interest-earning assets.

A reconciliation of banking net interest income to Group net interest income follows:

	2007	2006
	£m	£m
Banking net interest income	**5,167**	4,914
Products and Markets, and other products	**464**	368
Volatility and insurance grossing adjustment	**468**	47
Group net interest income	**6,099**	5,329

Certain fees payable by the Group's asset finance business have been reclassified from other income to interest income as part of the effective yield of the related lending; there is no impact upon profit before tax. Comparative figures have been restated accordingly.

5. Other income

	2007 £m	2006 £m
Fee and commission income:		
UK current account fees	**693**	652
Other UK fees and commissions	**1,215**	1,210
Insurance broking	**648**	629
Card services	**536**	493
International fees and commissions	**132**	132
	3,224	3,116
Fee and commission expense	**(600)**	(638)
Net fee and commission income	**2,624**	2,478
Net trading income	**3,570**	5,981
Insurance premium income	**5,430**	4,719
Other operating income	**1,012**	725
Total other income*	**12,636**	13,903
Insurance claims	**(7,522)**	(8,569)
Total other income, net of insurance claims*	**5,114**	5,334
Volatility		
- Insurance	**(274)**	82
- Policyholder interests	**(233)**	359
Total other income, net of insurance claims	**4,607**	5,775

*Excluding volatility. For statutory reporting purposes, volatility totalling £(507) million in 2007 (2006: £441 million); is included in total other income; comprising net trading income of £(447) million (2006: £360 million) and other operating income of £(60) million (2006: £81 million).

Certain fees payable by the Group's asset finance business have been reclassified from other income to interest income as part of the effective yield of the related lending; there is no impact upon profit before tax. Comparative figures have been restated accordingly.

6. General insurance income

	2007 £m	2006 £m
Premium income from underwriting		
Creditor	**164**	180
Home	**441**	424
Health	**9**	13
Reinsurance premiums	**(23)**	(17)
	591	600
Commissions from insurance broking		
Creditor	**394**	377
Home	**49**	47
Health	**12**	13
Other	**193**	192
	648	629

7. Operating expenses

	2007	2006
Administrative expenses:	**£m**	£m
Staff:		
Salaries	**2,127**	2,117
National insurance	**167**	161
Pensions		
- Before pension schemes related credit	**238**	293
- Pension schemes related credit	**-**	(128)
	238	165
Other staff costs	**372**	298
	2,904	2,741
Premises and equipment:		
Rent and rates	**304**	310
Hire of equipment	**16**	15
Repairs and maintenance	**154**	165
Other	**145**	149
	619	639
Other expenses:		
Communications and external data processing	**462**	499
Advertising and promotion	**192**	184
Professional fees	**279**	231
Settlement of overdraft claims	**76**	-
Other	**405**	388
	1,414	1,302
Administrative expenses	**4,937**	4,682
Depreciation and amortisation	**630**	619
Total operating expenses	**5,567**	5,301
Cost:income ratio – statutory basis*	**52.0%**	47.7%
Cost:income ratio – excluding volatility, the settlement of overdraft claims and, in 2006, the pension schemes related credit	**49.0%**	50.8%

*Total operating expenses divided by total income, net of insurance claims.

8. Number of employees (full-time equivalent)

	2007	2006
UK Retail Banking	**29,943**	30,204
Insurance and Investments	**5,276**	5,685
Wholesale and International Banking	**15,997**	19,210
Other, largely IT and Operations	**10,111**	10,400
	61,327	65,499
Agency staff (full-time equivalent)	**(3,249)**	(2,869)
Total number of employees (full-time equivalent)	**58,078**	62,630

The total number of employees reduced by 4,552 to 58,078. Of this reduction 2,790 related to the impact of business disposals (Lloyds TSB Registrars 1,485, Dutton-Forshaw 1,277 and Abbey Life 28).

9. Impairment losses by division

	2007 £m	2006 £m
Impairment losses by division		
UK Retail Banking		
Personal loans/overdrafts	**679**	740
Credit cards	**527**	490
Mortgages	**18**	8
	1,224	1,238
Wholesale and International Banking		
Excluding market dislocation and 2007 Finance Act	**447**	313
Market dislocation	**22**	-
2007 Finance Act	**28**	-
	497	313
Central group items	**-**	9
Impairment losses on loans and advances	**1,721**	1,560
Other credit risk provisions	**5**	(5)
Impairment of available-for-sale financial assets	**70**	-
Total impairment charge	**1,796**	1,555
Charge as % of average lending:		
Personal loans/overdrafts	**5.32**	5.85
Credit cards	**7.96**	6.99
Mortgages	**0.02**	0.01
UK Retail Banking	**1.10**	1.18
Wholesale and International Banking*	**0.51**	0.39
Total charge*	**0.82**	0.83

*Excluding impact of market dislocation and 2007 Finance Act.

10. Retirement benefit obligations

	2007 £m	2006 £m
Defined benefit pension schemes		
Present value of scheme liabilities	**16,795**	17,378
Fair value of scheme assets	**(16,112)**	(15,279)
Net defined benefit scheme deficit	**683**	2,099
Unrecognised actuarial gains	**1,350**	263
Net recognised defined benefit scheme deficit	**2,033**	2,362
Other post-retirement benefit schemes	**111**	100
Net recognised liability	**2,144**	2,462
Deferred tax	**(600)**	(739)
Recognised liability after tax	**1,544**	1,723

The Group's defined benefit pension schemes' gross deficit at 31 December 2007 improved by £1,416 million to £683 million, comprising net recognised liabilities of £2,033 million partly offset by unrecognised actuarial gains of £1,350 million. This improvement largely reflects an increase in the real discount rate used to value the schemes' liabilities and Group contributions to the schemes, which exceeded the cost of accruing benefits.

11. Capital ratios

	Basel II 31 December 2007 £m	Basel I 31 December 2007 £m	Basel I 31 December 2006 £m
Tier 1			
Share capital and reserves	**12,663**	**12,141**	11,155
Regulatory post-retirement benefit adjustments	**704**	**704**	1,041
Other items	**-**	**-**	39
Preference share capital	**1,589**	**1,589**	1,610
Innovative tier 1 capital instruments	**1,474**	**1,474**	1,372
Available-for-sale revaluation reserve and cash flow hedging reserve	**402**	**402**	(12)
Goodwill	**(2,358)**	**(2,358)**	(2,377)
Other deductions	**(929)**	**-**	-
Total tier 1 capital	**13,545**	**13,952**	12,828
Tier 2			
Undated loan capital	**4,457**	**4,457**	4,390
Dated loan capital	**3,441**	**3,441**	3,624
Collectively assessed provisions	**12**	**2,150**	1,951
Available-for-sale revaluation reserve in respect of equities	**12**	**12**	-
Other deductions	**(928)**	**-**	-
Total tier 2 capital	**6,994**	**10,060**	9,965
	20,539	**24,012**	22,793
Supervisory deductions			
Life and pensions businesses	**(4,373)**	**(4,373)**	(5,368)
Other deductions	**(491)**	**(762)**	(790)
Total supervisory deductions	**(4,864)**	**(5,135)**	(6,158)
Total capital	**15,675**	**18,877**	16,635
Risk-weighted assets	**£bn**	**£bn**	£bn
Credit risk	**127.2**		
Market risk	**5.3**		
Operational risk	**10.1**		
Total risk-weighted assets	**142.6**	**172.0**	156.0
Risk asset ratios			
Tier 1	**9.5%**	**8.1%**	8.2%
Total capital	**11.0%**	**11.0%**	10.7%
Post-tax return on average risk-weighted assets		**2.03%**	1.89%
Post-tax return on average risk-weighted assets*		**1.76%**	1.72%

*Excluding volatility, profit on sale of businesses, settlement of overdraft claims and, in 2006, pension schemes related credit.

12. Total assets by division

	31 December 2007 £m	31 December 2006 £m
UK Retail Banking	**115,012**	108,381
Insurance and Investments	**73,377**	86,074
Wholesale and International Banking	**163,294**	147,836
Central group items	**1,663**	1,307
Total assets	**353,346**	343,598

13. Balance sheet information

	31 December 2007 £m	31 December 2006 £m
Deposits – customer accounts		
Sterling:		
Non-interest bearing current accounts	**3,155**	3,739
Interest bearing current accounts	**42,858**	40,906
Savings and investment accounts	**70,003**	64,380
Other customer deposits	**24,671**	19,134
Total sterling	**140,687**	128,159
Currency	**15,868**	11,183
Total deposits – customer accounts	**156,555**	139,342
Loans and advances to customers		
Agriculture, forestry and fishing	**3,226**	2,905
Energy and water supply	**2,102**	2,024
Manufacturing	**8,385**	7,513
Construction	**2,871**	2,332
Transport, distribution and hotels	**11,573**	10,490
Postal and communications	**946**	831
Property companies	**17,576**	12,896
Financial, business and other services	**29,707**	22,999
Personal : mortgages	**102,739**	95,601
: other	**22,988**	23,025
Lease financing	**4,686**	4,802
Hire purchase	**5,423**	5,060
	212,222	190,478
Allowance for impairment losses on loans and advances	**(2,408)**	(2,193)
Total loans and advances to customers	**209,814**	188,285

Total loans and advances to customers in our international businesses totalled £6,291 million (31 December 2006: £5,589 million).

14. Loans and advances to customers

	Retail – Mortgages	Retail – Other	Wholesale	Total
31 December 2007	**£m**	**£m**	**£m**	**£m**
Neither past due nor impaired	**99,828**	**29,850**	**73,475**	**203,153**
Past due but not impaired	**2,153**	**966**	**639**	**3,758**
Impaired – no provision required	**415**	**100**	**293**	**808**
– provision held	**343**	**3,600**	**560**	**4,503**
Gross	**102,739**	**34,516**	**74,967**	**212,222**
Allowance for impairment losses	**(37)**	**(2,029)**	**(342)**	**(2,408)**
Net	**102,702**	**32,487**	**74,625**	**209,814**
31 December 2006				
Neither past due nor impaired	92,873	29,364	60,005	182,242
Past due but not impaired	1,943	1,005	374	3,322
Impaired – no provision required	658	92	158	908
– provision held	127	3,580	299	4,006
Gross	95,601	34,041	60,836	190,478
Allowance for impairment losses	(42)	(1,918)	(233)	(2,193)
Net	95,559	32,123	60,603	188,285

The analysis of lending between retail and wholesale has been prepared based upon the type of exposure and not the business segment in which the exposure is recorded. Included within retail are exposures to personal customers and small businesses, whilst included within wholesale are exposures to corporate customers and other large institutions.

Loans and advances to customers which are neither past due nor impaired

	Retail – Mortgages	Retail – Other	Wholesale	Total
	£m	**£m**	**£m**	**£m**
31 December 2007				
Good quality	**99,407**	**18,157**	**46,240**	
Satisfactory quality	**378**	**8,964**	**25,013**	
Lower quality	**1**	**665**	**2,034**	
Below standard, but not impaired	**42**	**2,064**	**188**	
Total	**99,828**	**29,850**	**73,475**	**203,153**
31 December 2006				
Good quality	92,472	16,940	35,659	
Satisfactory quality	359	9,667	21,797	
Lower quality	-	663	2,249	
Below standard, but not impaired	42	2,094	300	
Total	92,873	29,364	60,005	182,242

14. Loans and advances to customers (continued)

The definitions of good quality, satisfactory quality, lower quality and below standard but not impaired applying to retail and wholesale are not the same, reflecting the different characteristics of these exposures and the way they are managed internally, and consequently totals are not provided. Wholesale lending has been classified using internal probability of default rating models mapped so that they are comparable to external credit ratings. Good quality lending comprises the lower assessed default probabilities, with other classifications reflecting progressively higher default risk. Classifications of retail lending incorporate expected recovery levels for mortgages, as well as probabilities of default assessed using internal rating models. Good quality lending includes the lower assessed default probabilities and all loans with low expected losses in the event of default, with other categories reflecting progressively higher risks and lower expected recoveries.

15. Credit market positions in Corporate Markets

Lloyds TSB's high quality business model means that the Group has relatively limited exposure to assets affected by current capital markets uncertainties. The following table shows credit market positions in Corporate Markets, on both a gross and net basis.

Credit market positions – 31 December 2007	**Net Exposure £m**	**Gross Exposure £m**
US sub-prime ABS-direct	**–**	**–**
ABS CDOs		
– unhedged	**130**	**130**
– monoline hedged	**–**	**470**
– major global bank cash collateralised	**–**	**1,861**
Structured investment vehicles		
– capital notes	**78**	**78**
– liquidity backup facilities	**370**	**370**
Trading portfolio		
– ABS trading book	**474**	**474**
– secondary loan trading	**665**	**863**
– other assets*	**3,895**	**3,895**

*Primarily high quality senior bank and corporate assets; also includes £181 million of indirect exposure to US sub-prime mortgages and ABS CDOs. This super senior exposure is protected by note subordination.

15. Credit market positions in Corporate Markets (continued)

Available-for-sale assets	**31 December 2007 £bn**
Cancara	**8.3**
– US sub-prime – nil	
– Alt-A – £619 million	
– CMBS – £1,355 million (100% AAA/Aaa)	
Student Loan ABS	**3.2**
– US Government guaranteed	
Treasury assets	**4.6**
– Government bond and short-dated bank commercial paper	
Other assets	**4.1**
– Major bank senior paper and high quality ABS	
Total – Group	**20.2**

16. Profit on sale of businesses

During 2007, the Group disposed of its share registration business, Lloyds TSB Registrars; Abbey Life, the UK life operation which was closed to new business in 2000; and its medium-size car dealership, Dutton-Forshaw. In addition, provision has been made for payments under an indemnity given in relation to a business sold in an earlier year. A breakdown is provided below.

	2007	2006
	£m	£m
Lloyds TSB Registrars	**407**	-
Abbey Life	**272**	-
Other	**(22)**	-
	657	-

17. Economic profit

	2007	2006
	£m	£m
Statutory basis		
Average shareholders' equity	**11,681**	10,531
Profit attributable to equity shareholders	**3,289**	2,803
Less: notional charge	**(1,051)**	(948)
Economic profit	**2,238**	1,855
Excluding volatility, profit on sale of businesses, settlement of overdraft claims and, in 2006, pension schemes related credit		
Average shareholders' equity	**11,339**	10,485
Profit attributable to equity shareholders	**2,863**	2,634
Less: notional charge	**(1,021)**	(944)
Economic profit	**1,842**	1,690

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 (2006: 9 per cent).

18. Earnings per share

	2007	2006
Statutory basis		
Basic		
Profit attributable to equity shareholders	**£3,289m**	£2,803m
Weighted average number of ordinary shares in issue	**5,637m**	5,616m
Earnings per share	**58.3p**	49.9p
Fully diluted		
Profit attributable to equity shareholders	**£3,289m**	£2,803m
Weighted average number of ordinary shares in issue	**5,683m**	5,667m
Earnings per share	**57.9p**	49.5p
Excluding volatility, profit on sale of businesses, settlement of overdraft claims and, in 2006, pension schemes related credit		
Profit attributable to equity shareholders	**£2,863m**	£2,634m
Weighted average number of ordinary shares in issue	**5,637m**	5,616m
Earnings per share	**50.8p**	46.9p

19. Scottish Widows – realistic balance sheet information

Financial Services Authority (FSA) returns for large with-profits companies include realistic balance sheet information. The information included in FSA returns concentrates on the position of the With Profit Fund. However, under the Scottish Widows demutualisation structure, which was court approved, the fund is underpinned by certain assets outside the With Profit 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. The estimated position at 31 December 2007, allowing for the proposed transfer of £300 million from the Long Term Fund to the Shareholder Fund, is shown below, together with the actual position at 31 December 2006.

31 December 2007 (estimated)	**With Profit Fund £bn**	**Long Term Fund £bn**
Available assets, including support arrangement assets	**17.8**	**20.9**
Realistic value of liabilities	**(16.8)**	**(16.9)**
Working capital for fund	**1.0**	**4.0**
Working capital ratio	**5.4%**	**19.2%**

31 December 2006	With Profit Fund £bn	Long Term Fund £bn
Available assets, including support arrangement assets	19.4	22.3
Realistic value of liabilities	(18.3)	(18.3)
Working capital for fund	1.1	4.0
Working capital ratio	5.8%	17.9%

The Risk Capital Margin (RCM) is the capital buffer that the FSA requires to be held to cover prescribed adverse shocks. At 31 December 2007, the RCM was estimated to be £62 million for the With Profit Fund and £96 million for the Long Term Fund (covered 15 times and 42 times respectively by the working capital for the fund). At 31 December 2006, the RCM was £57 million for the With Profit Fund and £84 million for the Long Term Fund (covered 20 times and 47 times respectively).

20. European Embedded Value reporting – results for year ended 31 December 2007

This section provides further details of the Scottish Widows EEV financial information.

Composition of EEV balance sheet

	2007	2006
	£m	£m
Value of in-force business (certainty equivalent)	**2,779**	3,220
Value of financial options and guarantees	**(53)**	(56)
Cost of capital	**(178)**	(248)
Non-market risk	**(61)**	(75)
Total value of in-force business	**2,487**	2,841
Shareholders' net assets	**2,878**	3,572
Total EEV of covered business	**5,365**	6,413

Reconciliation of opening EEV balance sheet to closing EEV balance sheet on covered business

	Shareholders' net assets	**Value of in-force business**	**Total**
	£m	**£m**	**£m**
As at 1 January 2006	3,445	2,941	6,386
Total profit after tax	873	(100)	773
Dividends	(746)	-	(746)
As at 31 December 2006	**3,572**	**2,841**	**6,413**
Total profit after tax	**661**	**107**	**768**
Profit on disposal of Abbey Life (EEV basis)			
Sale proceeds	**985**	**-**	**985**
Assets disposed	**(474)**	**(461)**	**(935)**
	511	**(461)**	**50**
Dividends	**(1,866)**	**-**	**(1,866)**
As at 31 December 2007	**2,878**	**2,487**	**5,365**

Analysis of shareholders' net assets on an EEV basis on covered business

	Required capital	**Free surplus**	**Shareholders' net assets**
	£m	**£m**	**£m**
As at 1 January 2006	2,393	1,052	3,445
Total profit after tax	(186)	1,059	873
Dividends	-	(746)	(746)
As at 31 December 2006	**2,207**	**1,365**	**3,572**
Total (loss) profit after tax	**(238)**	**899**	**661**
Disposal of Abbey Life (EEV basis)	**(232)**	**743**	**511**
Dividends	-	**(1,866)**	**(1,866)**
As at 31 December 2007	**1,737**	**1,141**	**2,878**

20. European Embedded Value reporting – results for year ended 31 December 2007 (continued)

Summary income statement on an EEV basis

	2007	2006
	£m	£m
New business profit	**326**	346
Existing business profit		
- Expected return	**337**	403
- Experience variances	**78**	69
- Assumption changes	**(45)**	(133)
	370	339
Expected return on shareholders' net assets	**207**	167
Profit before tax, excluding volatility and other items*	**903**	852
Volatility	**(271)**	176
Other items*	**58**	76
Total profit before tax	**690**	1,104
Taxation	**(59)**	(331)
Impact of Corporation tax rate change	**137**	-
Total profit after tax, excluding profit on sale of Abbey Life	**768**	773
Profit on sale of Abbey Life (EEV basis)	**50**	-
Total profit after tax	**818**	773

*Other items represent amounts not considered attributable to the underlying performance of the business.

20. European Embedded Value reporting – results for year ended 31 December 2007 (continued)

Breakdown of income statement between life and pensions, and OEICs

2007	**Life and pensions £m**	**OEICS £m**	**Total £m**
New business profit	**270**	**56**	**326**
Existing business			
- Expected return	**286**	**51**	**337**
- Experience variances	**35**	**43**	**78**
- Assumption changes	**(105)**	**60**	**(45)**
	216	**154**	**370**
Expected return on shareholders' net assets	**199**	**8**	**207**
Profit before tax*	**685**	**218**	**903**
New business margin (PVNBP)	**3.5%**	**2.0%**	**3.1%**
Post-tax return on embedded value*			**9.9%**

2006	Life and pensions £m	OEICS £m	Total £m
New business profit	287	59	346
Existing business			
- Expected return	361	42	403
- Experience variances	35	34	69
- Assumption changes	(129)	(4)	(133)
	267	72	339
Expected return on shareholders' net assets	160	7	167
Profit before tax*	714	138	852
New business margin (PVNBP)	4.1%	2.2%	3.6%
Post-tax return on embedded value*			9.3%

*Excluding volatility and other items.

20. European Embedded Value reporting – results for year ended 31 December 2007 (continued)

Economic assumptions

A bottom up approach is used to determine the economic assumptions for valuing the business in order to determine a market consistent valuation.

The risk-free rate assumed in valuing in-force business is 10 basis points over the 15 year gilt yield. In valuing financial options and guarantees the risk-free rate is derived from gilt yields plus 10 basis points, in line with Scottish Widows' FSA realistic balance sheet assumptions. The table below shows the range of resulting yields and other key assumptions.

	31 December 2007 %	31 December 2006 %
Risk-free rate (value of in-force)	**4.65**	4.72
Risk-free rate (financial options and guarantees)	**4.28 to 4.81**	3.91 to 5.41
Retail price inflation	**3.28**	3.23
Expense inflation	**4.18**	4.13

Non-market risk

An allowance for non-market risk is made through the choice of best estimate assumptions based upon experience, which generally will give the mean expected financial outcome for shareholders and hence no further allowance for non-market risk is required. However, in the case of operational risk and the With Profit Fund these are asymmetric in the range of potential outcomes for which an explicit allowance is made.

Non-economic assumptions

Future mortality, morbidity, lapse and paid-up rate assumptions are reviewed each year and are based on an analysis of past experience and on management's view of future experience. These assumptions are intended to represent a best estimate of future experience.

For OEIC business, the lapse assumption is based on recent experience which has been collected over a period that has coincided with favourable investment conditions. Management have used a best estimate of the long-term lapse assumption which is higher than indicated by this experience. In management's view, the approach and lapse assumption are both reasonable.

20. European Embedded Value reporting – results for year ended 31 December 2007 (continued)

Sensitivity analysis

The table below shows the sensitivity of the EEV and the new business profit before tax to movements in some of the key assumptions. The impact of a change in the assumption has only been shown in one direction other than for risk free rate. Where the impact has been shown only in one direction it can be assumed to be reasonably symmetrical.

		Impact on EEV £m	Impact on new business profit before tax £m
2007 EEV/new business profit before tax		**5,365**	**326**
(1a)	100 basis points reduction in risk-free rate	161	7
(1b)	100 basis points increase in risk-free rate	(115)	(7)
(2)	10 per cent reduction in market values of equity assets	(178)	n/a
(3)	10 per cent reduction in market values of property assets	(32)	n/a
(4)	10 per cent reduction in expenses	96	31
(5)	10 per cent reduction in lapses	88	19
(6)	5 per cent reduction in annuitant mortality	(64)	(5)
(7)	5 per cent reduction in mortality and morbidity (excluding annuitants)	22	3
(8)	100 basis points increase in equity and property returns	nil	nil
(9)	10 basis points increase in credit spreads	(46)	(6)

(1) In this sensitivity the impact takes into account the change in the value of in-force business, financial options and guarantee costs, statutory reserves and asset values.
(2) The reduction in market values is assumed to have no corresponding impact on dividend yields.
(3) The reduction in market values is assumed to have no corresponding impact on rental yields.
(4) This sensitivity shows the impact of reducing new business maintenance expenses and investment expenses to 90 per cent of the expected rate.
(5) This sensitivity shows the impact of reducing lapse and surrender rates to 90 per cent of the expected rate.
(6) This sensitivity shows the impact on our annuity and deferred annuity business of reducing mortality rates to 95 per cent of the expected rate.
(7) This sensitivity shows the impact of reducing mortality rates on non-annuity business to 95 per cent of the expected rate.
(8) Under a market consistent valuation, changes in assumed equity and property returns have no impact on the EEV.
(9) This sensitivity shows the impact of a 10 basis point increase in corporate bond yields and the corresponding reduction in market values. Government bond yields and the risk-free rate are assumed to be unchanged.

In sensitivities (4) to (7) assumptions have been flexed on the basis used to calculate the value of in-force business and the realistic and the statutory reserving bases. A change in risk discount rates is not relevant as the risk discount rate is not an input to a market consistent valuation.

21. Scottish Widows – weighted sales (Annual Premium Equivalent)

	2007	2006
	£m	£m
Weighted sales (regular + 1/10 single)		
Life and pensions:		
Savings and investments	**89**	128
Protection	**117**	49
Individual pensions	**273**	270
Corporate and other pensions	**352**	322
Retirement income	**101**	98
Managed fund business	**47**	35
Life and pensions	**979**	902
OEICs	**297**	290
Life, pensions and OEICs	**1,276**	1,192
Bancassurance	**458**	403
Independent financial advisers	**733**	714
Direct	**85**	75
Life, pensions and OEICs	**1,276**	1,192

22. Legal and regulatory matters

During the ordinary course of business the Group is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed properly to assess the merits of the case. No provisions are held against such cases; however the Group does not currently expect the final outcome of these cases to have a material adverse effect on its financial position.

In the UK and elsewhere, there is continuing political and regulatory scrutiny of financial services. On 6 November 2007 the Competition Commission published its emerging thinking into the Payments Protection Inquiry and is expected to report by December 2008. The OFT is also carrying out a market study into personal current account pricing alongside its investigation into certain current account charges which are also subject to a legal test case (see below). The OFT is also investigating interchange fees charged by some card networks in parallel with the European Commission's own investigation into cross-border interchange fees. At the same time regulators are considering the review of retail distribution and UK financial stability and depositor protection proposals. It is not presently possible to assess the cost or income impact of these inquiries or any connected matters on the Group until the outcome is known.

In addition, a number of EU directives, including the Unfair Commercial Practices Directive and Payment Services Directive are currently being implemented in the UK. The EU is also considering regulatory proposals for, inter alia, a Consumer Credit, Mortgage Credit, Single European Payments Area, Retail Financial Services Review and capital adequacy requirements for insurance companies (Solvency II).

22. Legal and regulatory matters (continued)

On 27 July 2007, following agreement between the UK Office of Fair Trading (OFT) and a number of UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including Lloyds TSB Bank plc, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. A preliminary issues hearing has now taken place and judgment is currently awaited. It is likely that further hearings will be required and, if appeals are pursued, the proceedings may take a number of years to conclude. Pending resolution, the Financial Services Authority has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the proceedings are concluded unless in the light of prevailing circumstances this would be inappropriate. The Group intends strongly to defend its position. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the Court's determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Group. The ultimate impact of the litigation on the Group can only be known at its conclusion.

There has been increased scrutiny of the financial institutions sector, especially in the US, with respect to combating money laundering and terrorist financing and enforcing compliance with economic sanctions. The Office of Foreign Assets Control (OFAC) administers US laws and regulations in relation to US economic sanctions against designated foreign countries, nationals and others and the Group has been conducting a review of its conduct with respect to historic US dollar payments involving countries, persons or entities subject to those sanctions. The Group has provided information relating to its review of such historic payments to a number of authorities including OFAC, the US Department of Justice and the New York County District Attorney's office which, along with other authorities, have been reported to be conducting a broader review of sanctions compliance by non-US financial institutions. The Group is involved in ongoing discussions with these authorities with respect to agreeing a resolution of their investigations. No provision has been made in respect of this matter. The Group does not expect the final outcome to have a material adverse effect on its financial position.

23. Taxation

The statutory effective tax rate in 2007 was 17.0 per cent, compared to 31.6 per cent in 2006. 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 rate of the Group, excluding the gross policyholder and OEIC interests from profit before tax and the tax charge and, in 2007, the profit on disposal of businesses from profit before tax and the impact on the year end deferred tax position of the UK corporation tax rate change (£110 million credit), was 28.3 per cent (2006: 28.0 per cent).

The 2007 Finance Act reduction in the corporation tax rate from 30 per cent to 28 per cent has resulted in a one-off impairment charge relating to a reduction in future rental income within the Group's leasing business of £28 million, as a result of the triggering of relevant tax variation clauses. In addition, the Group's deferred tax liabilities have been remeasured resulting in a credit to the Group's tax charge of £110 million. The net impact of these items has been to increase shareholders' equity by £90 million. The future impact of the reduction in capital allowances from 25 per cent to 20 per cent will not be material for the Group.

23. Taxation (continued)

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

	2007	2006
	£m	£m
Profit before tax	**4,000**	4,248
Tax charge thereon at UK corporation tax rate of 30%	**1,200**	1,274
Factors affecting charge:		
Disallowed and non-taxable items	**2**	(8)
Overseas tax rate differences	**(4)**	(2)
Gains exempted or covered by capital losses	**(274)**	(78)
Policyholder interests	**(173)**	123
Corporation tax rate change	**(110)**	-
Other items	**38**	32
Tax charge	**679**	1,341

24. Dividend

A final dividend for 2007 of 24.7p (2006: 23.5p), representing an increase of 5 per cent, will be paid on 7 May 2008. The total amount of this dividend is £1,394 million.

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	**5 March 2008**
Record date	**7 March 2008**
Final date for joining or leaving the dividend reinvestment plan	**9 April 2008**
Final dividend paid	**7 May 2008**
Annual general meeting	**8 May 2008**

25. 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 2007 were approved by directors on 21 February 2008 and will be delivered to the Registrar of Companies following publication on 29 March 2008. The auditors' report on these accounts was unqualified and did not include a statement under sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

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

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.

Registered office: Lloyds TSB Group plc, Henry Duncan House, 120 George Street, Edinburgh, EH2 4LH. Registered in Scotland no. 95000.