2006 compared to 2005

The impairment charge was £256 million, or 20 per cent, higher at £1,555 million in 2006 compared to £1,299 million in 2005. This represented a charge in respect of loans and advances of £1,560 million (2005: £1,302 million) slightly offset by a release of £5 million (2005: £3 million) from provisions held in respect of contingent liabilities and commitments.

The impairment charge in respect of loans and advances within UK Retail Banking was £1,238 million which was £127 million, or 11 per cent, higher than £1,111 million in 2005. The impairment charge in 2005 included £46 million in respect of the Goldfish portfolio which was sold at the end of that year; excluding this item the impairment charge of £1,238 million in 2006 was £173 million, or 16 per cent, higher than £1,065 million in 2005. The charge in respect of personal loans and overdrafts of £740 million was £84 million, or 13 per cent, higher than £656 million in 2005 and represented 5.85 per cent of average lending (2005: 5.33 per cent). The charge in respect of card balances (excluding the Goldfish portfolio sold in 2005) was £490 million, which was £94 million, or 24 per cent, higher than £396 million in 2005 and represented 6.99 per cent of average lending (2005: 5.80 per cent). This deterioration in respect of personal loans, overdrafts and card balances reflected the impact of more customers with higher levels of indebtedness experiencing repayment difficulties together with higher levels of bankruptcies and Individual Voluntary Arrangements, as well as some worsening of recovery experience. Mortgage credit quality remained good and, as a result, the impairment charge in 2006 of £8 million was £5 million, or 62 per cent, lower than £13 million in 2005.

The impairment charge in respect of loans and advances within Wholesale and International Banking was £313 million in 2006 which was £122 million, or 64 per cent, higher than £191 million in 2005; expressed as a percentage of average lending this represented a charge of 0.39 per cent compared to 0.28 per cent in 2005. There was a lower level of net releases within Corporate Markets, as some significant one-off releases in 2005 were not repeated. The charge within Commercial Banking was higher, reflecting business growth; and in Asset Finance rising levels of consumer arrears and voluntary terminations led to an increase in the impairment charge.

Overall, the Lloyds TSB Group’s charge in respect of impairment losses on loans and advances expressed as a percentage of average lending increased to 0.83 per cent in 2006 compared to 0.76 per cent in 2005.

Taxation

	2007 £m	2006 £m	2005 £m
UK corporation tax:			
– Current tax on profits for the year	**763**	1,024	862
– Adjustments in respect of prior years	**(30)**	(137)	(20)
	733	887	842
Double taxation relief	**(60)**	(195)	(138)
	673	692	704
Foreign tax:			
– Current tax on profits for the year	**98**	83	78
– Adjustments in respect of prior years	**(3)**	(8)	(8)
	95	75	70
Current tax charge	**768**	767	774
Deferred tax	**(89)**	574	491
Total charge	**679**	1,341	1,265

2007 compared to 2006

The rate of tax is influenced by the geographic and business mix of profits. The effective rate of tax in 2007 was 17.0 per cent, compared to an effective rate of tax in 2006 of 31.6 per cent and the corporation tax rate in 2007 of 30 per cent (2006: 30 per cent). The effective tax rate is distorted by the requirement to include, within the income tax expense, the tax attributable to UK life insurance policyholder earnings and the Lloyds TSB Group’s interests in OEICs. The effective rate in 2007 is also particularly distorted by substantial profits on disposal of businesses, on which no tax charge has arisen, and the impact on the tax charge of the 2007 Finance Act reduction in the corporation tax rate from 30 per cent to 28 per cent, as a result of which the Lloyds TSB Group’s deferred tax liabilities have been remeasured leading to a credit to the Group’s tax charge of £110 million. Excluding these items the effective tax rate in 2007 was 28.3 per cent compared to 28.0 per cent in 2006. The increased effective tax rate in 2007 on this adjusted basis reflects normal fluctuations in disallowed and non-taxable items. Lloyds TSB Group does not expect the tax rate, excluding the impact of policyholders’ tax and OEICs, to vary significantly from the average UK corporation tax rate.

2006 compared to 2005

The effective rate of tax in 2006 was 31.6 per cent, compared to an effective rate of tax in 2005 of 33.1 per cent and the corporation tax rate in 2006 of 30 per cent (2005: 30 per cent). Excluding the tax attributable to UK life insurance policyholder earnings and the Lloyds TSB Group’s interests in OEICs, the effective tax rate in 2006 was 28.0 per cent compared to 27.0 per cent in 2005. The increased effective tax rate in 2006 on this adjusted basis reflected normal fluctuations in disallowed and non-taxable items.

Economic profit

In pursuit of the Group's aim to maximise shareholder value over time, management has for a number of years used a system of value based management as a framework to identify and measure value creation. Management uses economic profit, a non-GAAP measure, as a measure of performance, and believes that it provides important information for investors, because it captures both growth in investment and return; profit before tax is the comparable GAAP measure used by management. Lloyds TSB Group defines economic profit as the earnings on the equity invested in the business less a notional charge for the cost of the equity invested in that business.

The Lloyds TSB Group's cost of equity is determined as:

risk-free interest rate + (equity risk premium x Lloyds TSB Group plc's beta)

The principal limitations of economic profit as a financial measure are that:

(i) it is reliant on an estimate of the Lloyds TSB Group's cost of equity, which is itself dependent upon assumptions made for the risk-free interest rate, the equity risk premium and the beta of Lloyds TSB Group plc. The beta is a quantitative measure of the volatility of Lloyds TSB Group plc shares relative to the overall market – a beta above 1 indicates that the stock is more volatile than the overall market, whilst a stock with a beta below 1 is less volatile than the overall market; and

(ii) it uses average shareholders' equity calculated on an accounting basis as opposed to an economic equity amount, which takes into account the level of risk inherent in the business; the Lloyds TSB Group is currently developing an economic equity model to address this limitation.

The Lloyds TSB Group does not attempt to estimate the assumptions on a prospective basis; the assumptions used are:

(a) the yield on the 10 year index for UK government stock as an approximation of the risk-free rate;

(b) an equity risk premium of 3 per cent; and

(c) the beta of Lloyds TSB Group plc's shares based on experience over the last five years.

The Lloyds TSB Group recognises that a wide range of approaches for economic profit can be justified and, therefore, believes that its usefulness as a financial measure relies upon a consistent approach, so as not to unnecessarily distort its trend.

Lloyds TSB Group believes that economic profit instils financial discipline in determining investment decisions throughout Lloyds TSB Group and that it enables Lloyds TSB Group to evaluate alternative strategies objectively, with a clear understanding of the value created by each strategy, and then to select the strategy which creates the greatest value. Awards to senior executives under the Lloyds TSB Group's annual bonus arrangements are partly determined by the achievement of economic profit targets.

Management compensates for both of the above limitations by using a consistent basis of calculation, reviewing the results of the calculation regularly and, to ensure consistency of reporting, only adjusting the cost of capital if it changes significantly. As noted above, the Lloyds TSB Group is also currently developing its economic equity capabilities, which will address the current limitations. As noted, the principal factor in estimating the cost of equity is the risk-free interest rate. If this rate increases, management will consider raising its estimate of the cost of equity; if the rate falls, management will consider reducing its estimate of the cost of equity. The principal other external market factors considered are equity risk premium and Lloyds TSB Group plc's share price volatility relative to the UK stock market as a whole. Any change to the estimated cost of equity will be disclosed. For the last three years, management has used a cost of equity of 9 per cent to reflect the shareholders' minimum required rate of return on equity invested.

The table below summarises Lloyds TSB Group's calculation of economic profit for the years indicated.

	2007 £m	2006 £m	2005 £m
Average shareholders' equity	**11,681**	10,531	9,747
Profit before tax	**4,000**	4,248	3,820
Taxation	**(679)**	(1,341)	(1,265)
Profit attributable to minority interests	**(32)**	(104)	(62)
Profit attributable to equity shareholders	**3,289**	2,803	2,493
Less: notional charge for the cost of equity	**(1,051)**	(948)	(877)
Economic profit	**2,238**	1,855	1,616

The notional charge for the cost of equity has been calculated by multiplying average shareholders' equity by the cost of equity. The Lloyds TSB Group's average equity is determined using month-end retained profit and other equity balances.

2007 compared to 2006

Economic profit increased to £2,238 million in 2007 compared to £1,855 million in 2006. Profit attributable to equity shareholders increased by £486 million, or 17 per cent, to £3,289 million; the notional charge on average equity was £103 million higher, as a result of an 11 per cent increase in average equity to £11,681 million compared to £10,531 million in 2006. The increase in average equity primarily reflects profit retentions, after dividends, over 2006 and 2007.

2006 compared to 2005

Economic profit increased to £1,855 million in 2006 compared to £1,616 million in 2005. Profit attributable to equity shareholders increased by £310 million, or 12 per cent, to £2,803 million; the notional charge on average equity was £71 million higher, as a result of an 8 per cent increase in average equity to £10,531 million compared to £9,747 million in 2005.

Line of business information

Summary

The impact of IFRS, and in particular the increased use of fair values, has resulted in greater earnings volatility. Profit before tax is analysed below on both a statutory basis and, in order to provide a more comparable representation of business performance, a basis which separately discloses this volatility, which arises solely within the Insurance and Investments business. See page 36 for a description of volatility and its most significant limitations. The results of the businesses are set out below:

	Profit before tax (statutory)			Profit before tax (excluding volatility)		
	2007 £m	2006 £m	2005 £m	**2007 £m**	2006 £m	2005 £m
UK Retail Banking	**1,732**	1,549	1,394	**1,732**	1,549	1,394
Insurance and Investments	**828**	1,383	1,474	**1,328**	973	725
Wholesale and International Banking	**1,822**	1,640	1,518	**1,822**	1,640	1,518
Central group items	**(382)**	(324)	(566)	**(382)**	(324)	(566)
Profit before tax, excluding volatility				**4,500**	3,838	3,071
Volatility				**(500)**	410	749
Profit before tax	**4,000**	4,248	3,820	**4,000**	4,248	3,820

UK Retail Banking

	2007 £m	2006 £m	2005 £m
Net interest income	**3,783**	3,642	3,521
Other income	**1,797**	1,621	1,605
Total income	**5,580**	5,263	5,126
Operating expenses	**(2,624)**	(2,476)	(2,697)
Trading surplus	**2,956**	2,787	2,429
Impairment	**(1,224)**	(1,238)	(1,111)
Profit on sale of businesses	**—**	—	76
Profit before tax†	**1,732**	1,549	1,394
Cost:income ratio	**47.0%**	47.0%	52.6%
Total assets (year end)	**£115,012m**	£108,381m	£103,930m
Total risk-weighted assets (year end)	**£61,713m**	£59,101m	£60,582m

† No volatility arises within UK Retail Banking and so these results are both statutory and excluding volatility.

2007 compared to 2006

Profit before tax from UK Retail Banking increased by £183 million, or 12 per cent, to £1,732 million in 2007 compared to £1,549 million in 2006. Profit before tax included the cost of the settlement of overdraft claims (2007: £76 million; 2006: £nil); excluding this item, profit before tax in 2007 of £1,808 million was £259 million, or 17 per cent, higher than £1,549 million in 2006.

Net interest income was £141 million, or 4 per cent, higher at £3,783 million in 2007 compared with £3,642 million in 2006. Average interest-earning assets were £5,959 million, or 6 per cent higher at £110,894 million in 2007 compared to £104,935 million in 2006. Average mortgage balances were £6,462 million higher in 2007. Gross new mortgage lending for the Lloyds TSB Group totalled £29,431 million (2006: £27,599 million); net new lending totalled £6,647 million (2006: £6,957 million) resulting in a market share of net new mortgage lending of 6.2 per cent (2006: 6.3 per cent). Average balances in respect of other personal lending were £266 million lower reflecting a slow down in consumer demand, particularly with regard to credit cards. Credit card balances at 31 December 2007 were 4 per cent lower at £6,584 million compared to £6,877 million at 31 December 2006, whilst period end balances on personal loans were 1 per cent higher at £11,238 million at the end of 2007. Credit balances on savings and investment accounts at 31 December 2007 were 8 per cent higher at £82,081 million compared to £75,661 million at 31 December 2006. The effect of volume growth was, however, partly offset by a 6 basis point decrease in the net interest margin as a result of competitive pressures and an adverse mix effect, as most of the asset growth has been in the relatively lower margin mortgage sector.

Other income was £176 million, or 11 per cent, higher at £1,797 million compared to £1,621 million in 2006. The increase arises from growth in fee-earning added-value current accounts and income from debit cards as well as higher insurance commissions, partially offset by lower income from mortgages following changes in the structure of fees charged on closing a mortgage account and lower late payment charges in credit cards. There has also been an increase in wealth management fee income.

Operating expenses were £148 million higher at £2,624 million in 2007 compared with £2,476 million in 2006; this comparison includes the cost of the settlement of overdraft claims (2007: £76 million; 2006: £nil). Excluding this item, operating expenses were £72 million, or 3 per cent, higher at £2,548 million. Improvements have been made in the rationalisation of back office operations to improve efficiency and the Group continues to increase the proportion of front office to back office staff in the branch network. The cost:income ratio was 47.0 per cent (2006: 47.0 per cent), or 45.7 per cent excluding the cost of the settlement of overdraft claims.

The impairment charge on loans and advances of £1,224 million was £14 million, or 1 per cent, lower than the £1,238 million in 2006. The charge in respect of personal loans and overdrafts was £61 million, or 8 per cent, lower at £679 million compared to £740 million in 2006 and represented 5.32 per cent of average lending (2006: 5.85 per cent); and the charge in respect of card balances was £37 million, or 8 per cent, higher at £527 million compared with £490 million in 2006. The impairment charge in Mortgages was £18 million (2006: £8 million), or 2 basis points of average mortgage lending.

2006 compared to 2005

Profit before tax from UK Retail Banking increased by £155 million, or 11 per cent, to £1,549 million in 2006 compared to £1,394 million in 2005; this comparison included, in 2005, a customer remediation provision of £150 million (2006: £nil) and the profit on disposal of the Goldfish portfolio of £76 million (2006: £nil); excluding these items, profit before tax of £1,549 million in 2006 was £81 million, or 6 per cent, higher than £1,468 million in 2005.

Net interest income was £121 million, or 3 per cent, higher at £3,642 million in 2006 compared to £3,521 million in 2005. Average interest-earning assets were £6,447 million, or 7 per cent, higher at £104,935 million in 2006 compared to £98,488 million in 2005; when the average balances in respect of the Goldfish portfolio sold at the end of 2005 are excluded, average-interest earning assets increased by £7,327 million compared to 2005. Average mortgage balances were £6,831 million higher, reflecting good growth over 2005 and 2006. Gross new mortgage lending for the Lloyds TSB Group totalled £27,599 million (2005: £25,979 million); and net new lending totalled £6,957 million (2005: £8,311 million) resulting in a market share of net new mortgage lending of 6.3 per cent (2005: 9.1 per cent); year end mortgage balances outstanding increased by 8 per cent to £95,333 million. Average balances in respect of other personal lending were £384 million lower; although they were £496 million higher in 2006 once the effect of the sale of the Goldfish portfolio is excluded. This underlying increase in average non-mortgage balances largely reflected net growth over 2005; period end balances on personal loans were 1 per cent higher at £11,099 million at the end of 2006 although period end credit card balances were 5 per cent lower at £6,877 million, compared to £7,209 million at 31 December 2005. Credit balances on savings and investment accounts at 31 December 2006 were 7 per cent higher at £75,661 million, compared to £71,019 million at 31 December 2005. The effect of this volume growth was, however, partly offset by an 11 basis point decrease in the net interest margin as a result of competitive pressures and a change in mix, as most of the growth has been in the relatively low margin mortgage sector.

Other income was £16 million higher at £1,621 million in 2006, compared to £1,605 million in 2005. This largely represented net fee and commission income; the moderate growth reflected the fact that good growth in current account fee income due to a change in mix towards the more comprehensive, and therefore higher fee-earning, added-value account packages had been partly offset by a reduction in card fee income following the sale of the Goldfish portfolio at the end of 2005. There was also good growth in wealth management fee income.

Operating expenses were £221 million, or 8 per cent, lower at £2,476 million in 2006 compared to £2,697 million in 2005; this comparison included, in 2005, a customer remediation provision of £150 million. Excluding this item, costs were £71 million, or 3 per cent, lower at £2,476 million. The reduction in underlying operating expenses reflected the sale of the Goldfish portfolio, efficiency savings, reduced levels of fraud and other operational losses and a lower level of marketing and brand spend.

The impairment charge on loans and advances at £1,238 million was £127 million, or 11 per cent, higher than £1,111 million in 2005. The impairment charge in 2005 included £46 million in respect of the Goldfish portfolio, which was sold at the end of that year. Adjusting for this the charge in 2006 was £173 million, or 16 per cent, higher at £1,238 million compared to £1,065 million in 2005. The charge in respect of personal loans and overdrafts was £84 million, or 13 per cent, higher at £740 million compared to £656 million in 2005 and represented 5.85 per cent of average lending (2005: 5.33 per cent); whilst the charge in respect of card balances was £94 million, or 24 per cent, higher at £490 million in 2006 compared to £396 million in 2005 (excluding charges in respect of the Goldfish portfolio). This reflected the impact of more customers with higher levels of indebtedness facing repayment difficulties, higher levels of bankruptcies and Individual Voluntary Arrangements, and deterioration in debt recovery experience. Mortgage quality remained good and there was an impairment charge of £8 million in 2006 compared to £13 million in 2005.

Insurance and Investments

Lloyds TSB Group's Insurance and Investments activities comprise the life, pensions and OEICs businesses of Scottish Widows, general insurance underwriting and broking, and Scottish Widows Investment Partnership. The Group sold Abbey Life in the second half of 2007.

In addition to presenting Insurance and Investments results prepared in accordance with IFRS, all monthly financial reporting to the group executive committee and board presents separately the results of these businesses before volatility. The information set out below, therefore, presents the information both in accordance with applicable accounting standards ('statutory') and on a basis which excludes volatility ('excluding volatility'). Further discussion on the Group's use of volatility is provided in 'Operating and financial review and prospects – Line of business information – Volatility'.

	Statutory			Excluding volatility		
	2007 £m	2006 £m	2005 £m	**2007 £m**	2006 £m	2005 £m
Net interest income	**536**	103	395	**529**	134	389
Other income	**8,197**	10,487	13,859	**8,704**	10,046	13,116
Total income	**8,733**	10,590	14,254	**9,233**	10,180	13,505
Insurance claims	**(7,522)**	(8,569)	(12,186)	**(7,522)**	(8,569)	(12,186)
Total income, net of insurance claims	**1,211**	2,021	2,068	**1,711**	1,611	1,319
Operating expenses	**(655)**	(638)	(594)	**(655)**	(638)	(594)
Trading surplus	**556**	1,383	1,474	**1,056**	973	725
Profit on sale of businesses	**272**	—	—	**272**	—	—
Profit before tax, excluding volatility				**1,328**	973	725
Volatility				**(500)**	410	749
Profit before tax	**828**	1,383	1,474	**828**	1,383	1,474
Further analysis of other income:						
Net fee and commission expense	**(94)**	(125)	(112)	**(94)**	(125)	(112)
Net trading income	**2,603**	5,668	8,859	**3,050**	5,308	8,375
Insurance premium income	**5,430**	4,719	4,469	**5,430**	4,719	4,469
Other operating income	**258**	225	643	**318**	144	384
Other income, excluding volatility				**8,704**	10,046	13,116
Volatility				**(507)**	441	743
Other income	**8,197**	10,487	13,859	**8,197**	10,487	13,859
Analysis by area of business of profit before tax						
Life, pensions and OEICs	**663**	1,093	1,221	**1,156**	701	500
General insurance	**121**	261	237	**128**	243	209
Scottish Widows Investment Partnership	**44**	29	16	**44**	29	16
Profit before tax, excluding volatility				**1,328**	973	725
Volatility				**(500)**	410	749
Profit before tax	**828**	1,383	1,474	**828**	1,383	1,474

2007 compared to 2006

Profit before tax from the Lloyds TSB Group’s Insurance and Investments business was £555 million, or 40 per cent, lower at £828 million compared to £1,383 million in 2006. This comparison is distorted by volatility arising from market movements (see ‘Operating and financial review and prospects – Line of business information – Volatility’); profit before tax excluding volatility was £355 million, or 36 per cent, higher at £1,328 million in 2007 compared to £973 million in 2006. Profit before tax in 2007 includes £272 million profit on the disposal of Abbey Life at the end of September 2007.

Net interest income was £433 million higher at £536 million in 2007 compared to £103 million in 2006. This increase is primarily as a result of a decrease in the amounts payable to unitholders in those OEICs included in the consolidated results of the Group together with an increase in the level of interest income on cash deposit investments held in the long-term business and policyholder funds.

Other income was £2,290 million, or 22 per cent, lower at £8,197 million in 2007 compared to £10,487 million in 2006; excluding volatility, other income was £1,342 million, or 13 per cent, lower at £8,704 million in 2007 compared to £10,046 million in 2006. Net fee and commission expense was £31 million, or 25 per cent, lower at £94 million in 2007 compared to £125 million in 2006 partly reflecting an increase in general insurance broking income. Net trading income was £3,065 million, or 54 per cent, lower at £2,603 million in 2007 compared to £5,668 million in 2006, reflecting fluctuations in the level of investment returns within the long-term business funds. Insurance premium income was £711 million, or 15 per cent, higher at £5,430 million in 2007 compared to £4,719 million in 2006, of which, life and pensions premiums were £720 million higher as a result of the increased level of business written under contracts categorised as insurance. Other operating income was £33 million, or 15 per cent, higher at £258 million in 2007 compared to £225 million in 2006.

Operating expenses were £17 million, or 3 per cent, higher at £655 million in 2007 compared to £638 million in 2006. The reduction in staff costs resulting from a year-on-year reduction in staff numbers has been offset by the impact of annual salary increases, a higher net charge in respect of amortisation of deferred acquisition costs and an increased charge for depreciation and amortisation.

The performance of the life, pensions and OEICs business and the general insurance business is discussed further below.

2006 compared to 2005

Profit before tax from the Lloyds TSB Group’s Insurance and Investments business was £91 million, or 6 per cent, lower at £1,383 million compared to £1,474 million in 2005. This comparison is distorted by volatility arising from market movements (see ‘Operating and financial review and prospects – Line of business information – Volatility’); profit before tax excluding volatility was £248 million, or 34 per cent, higher at £973 million in 2006 compared to £725 million in 2005. However, results for the comparative year ended 31 December 2005 were also impacted by the £155 million provision for the strengthening of reserves in respect of annuitant mortality; if this item is also excluded, the profit before tax excluding volatility and strengthening of mortality reserves was £93 million, or 11 per cent, higher at £973 million in 2006 compared to £880 million in 2005.

Net interest income was £292 million, or 74 per cent, lower at £103 million in 2006 compared to £395 million in 2005. This decrease reflected a reduction in the level of interest income on cash deposit investments held in the long-term business and policyholder funds and, more significantly, an increase in the amounts payable to unitholders in those OEICs included in the consolidated results of the Lloyds TSB Group.

Other income was £3,372 million, or 24 per cent, lower at £10,487 million in 2006 compared to £13,859 million in 2005; excluding volatility, other income was £3,070 million, or 23 per cent, lower at £10,046 million in 2006 compared to £13,116 million in 2005. Net fee and commission expense was £13 million, or 12 per cent, higher at £125 million in 2006 compared to £112 million in 2005; the impact of good growth in OEIC management fee income and the benefit of reduced fees payable to UK Retail Banking were offset by a reduction in general insurance broking income and an increase in other fees payable. Net trading income was £3,191 million, or 36 per cent, lower at £5,668 million in 2006 compared to £8,859 million in 2005; this reflected fluctuations in the level of investment returns within the long-term business funds, with an offsetting reduction within the insurance claims figure and within interest expense in respect of the OEICs. Insurance premium income was £250 million, or 6 per cent, higher at £4,719 million in 2006 compared to £4,469 million in 2005. Life and pensions premiums were £212 million higher and general insurance premiums were £38 million higher, reflecting the commencement of underwriting of card and commercial loan protection products during 2006. Other operating income was £418 million, or 65 per cent, lower at £225 million in 2006 compared to £643 million in 2005; this reduction reflected a £429 million year-on-year decrease in the movement of value of in-force business as a result of the application of the new valuation rules in the FSA’s Policy Statement 06/14; this reduction was, however, largely offset by a similar reduction within insurance claims expense.

Operating expenses were £44 million, or 7 per cent, higher at £638 million in 2006 compared to £594 million in 2005. The impact of a decrease in staff numbers was largely offset by annual pay awards and there were increased advertising and promotion costs in respect of the Scottish Widows brand together with a lower net credit in respect of the amortisation of deferred acquisition costs (due to new business fluctuations and actuarial model changes).

Life, pensions and OEICs

The table below shows the measure of new business premiums for the life and pensions business and OEIC sales which management monitor because it provides an indication of both the performance and the profitability of the business – Present Value of New Business Premiums (‘PVNBP’); this is calculated as the value of single premiums plus the discounted present value of future expected regular premiums. There are three main distribution channels for the sale of Lloyds TSB Group’s life, pension and OEIC products and the tables below show the relative importance of each.

Present value of new business premiums (PVNBP)	2007 £m	2006 £m	2005 £m
Life and pensions:			
Protection	**960**	232	255
Savings and investments	**913**	1,300	1,465
Individual pensions	**2,073**	2,219	2,197
Corporate and other pensions	**2,141**	1,961	1,517
Retirement income	**1,044**	960	658
Managed fund business	**486**	348	535
Life and pensions	**7,617**	7,020	6,627
OEICs	**2,807**	2,720	1,215
Life, pensions and OEICs	**10,424**	9,740	7,842
Single premium business	**8,375**	7,321	5,636
Regular premium business	**2,049**	2,419	2,206
Life, pensions and OEICs	**10,424**	9,740	7,842
Bancassurance	**4,096**	3,421	2,114
Independent financial advisers	**5,817**	5,706	5,233
Direct	**511**	613	495
Life, pensions and OEICs	**10,424**	9,740	7,842

2007 compared to 2006

Overall life, pensions and OEICs sales were £684 million, or 7 per cent, higher at £10,424 million in 2007 compared to £9,740 million in 2006.

The majority of the growth was in life and pension sales (including Managed fund business) which were £597 million, or 9 per cent, higher at £7,617 million in 2007 compared with £7,020 million in 2006. A key growth area in 2007 was Protection where sales increased by £728 million reflecting the launch of the Protection for Life proposition in all sales channels and the introduction, in 2007, of underwriting the life element of the creditor insurance and protection product, within Bancassurance. Additionally, corporate pension sales were £180 million, or 9 per cent, higher reflecting increased incremental premiums in 2007. These increases were, however, in part offset by a decrease of £387 million in Savings and investments sales largely due to a sharp decline in IFA Flexible Option Bond sales following property fund restrictions and increasing competition in the marketplace.

OEICs sales increased £87 million, or 3 per cent, in 2007 to £2,807 million compared to £2,720 million in 2006. The growth in OEICs sales reflects increased sales capabilities within the Bancassurance channel and, in particular, continued development of the relationships with the Community Banking and Wealth Management businesses within UK Retail Banking.

By distribution channel, Bancassurance sales were £675 million, or 20 per cent, higher at £4,096 million in 2007 compared to £3,421 million in 2006, as a result of continuing development of the relationships with the Community Banking and Wealth Management businesses. Sales via independent financial advisers were £111 million, or 2 per cent, higher at £5,817 million in 2007 compared to £5,706 million in 2006.

Profit before tax, on a statutory basis, from life, pensions and OEICs was £430 million, or 39 per cent, lower at £663 million in 2007 compared to £1,093 million in 2006. Excluding volatility, profit before tax was £455 million, or 65 per cent, higher at £1,156 million in 2007 compared to £701 million in 2006. Profit before tax in 2007 includes £272 million profit on disposal of Abbey Life. A slight reduction in new business profit resulted from a change in the mix of investment products sold through Bancassurance towards non-embedded value accounted products; however this was offset by increased existing business profit, partly reflecting a reduction in adverse assumption changes compared to 2006, and an improved expected return on shareholders’ net assets.

2006 compared to 2005

Overall life, pensions and OEICs sales were £1,898 million, or 24 per cent, higher at £9,740 million in 2006 compared to £7,842 million in 2005. The majority of the growth was in OEICs sales, which were £1,505 million, or 124 per cent, higher at £2,720 million in 2006 compared to £1,215 million in 2005. The growth in OEICs sales reflected an improved sales process through the branch network, a very successful tax year end campaign, and increasing success in selling to Wealth Management customers. OEICs sales also benefited from the development of the Financial Planning Service sales force in the branch network and development of the relationships with the Community Banking and Wealth Management businesses within UK Retail Banking in order to gain better access to the targeted Mass Affluent market.

Life and pensions sales (including Managed fund business) were £393 million, or 6 per cent, higher at £7,020 million in 2006 compared to £6,627 million in 2005. Corporate and other pension sales were £444 million, or 29 per cent, higher as a result of continuing strong sales following improvements in the product in 2005. Retirement income sales were £302 million, or 46 per cent, higher as a result of improvements in the Income Drawdown product and increased market activity following A-day (6 April 2006, when new legislation simplifying the pensions market came into force in the UK). These increases were, however, in part offset by a decrease of £165 million in Savings and investments sales and a reduction of £187 million in Managed fund business. The decrease in Savings and investments sales reflected competitive pressures and the limiting of investments into the SWIP Property Fund; Managed fund business was lower as 2005 included some exceptional benefits from mandate gains.

By distribution channel, bancassurance sales were £1,307 million, or 62 per cent, higher at £3,421 million in 2006 compared to £2,114 million in 2005, as a result of the success of the developing Financial Planning Service sales force and the strong OEICs sales. Sales via independent financial advisers were £473 million, or 9 per cent, higher at £5,706 million in 2006 compared to £5,233 million in 2005; this reflected the strong Corporate pensions, Retirement income and OEIC sales via the dedicated Scottish Widows Investment Partnership sales force, partly offset by the decrease in Savings and investments sales and in managed fund business.

Profit before tax, on a statutory basis, from life, pensions and OEICs was £128 million, or 10 per cent, lower at £1,093 million in 2006 compared to £1,221 million in 2005. Excluding volatility, profit before tax was £201 million, or 40 per cent, higher at £701 million in 2006 compared to £500 million in 2005. However, the 2005 results were also impacted by the £155 million provision for the strengthening of reserves for annuitant mortality (£nil in 2006); also excluding this item, profit before tax was £46 million, or 7 per cent, higher at £701 million in 2006 compared to £655 million in 2005. New business profits improved as a result of the strong sales of Corporate and other pensions and this was coupled with a higher level of profits from existing business; these increases were only partly offset by reduced returns on shareholder net assets as a result of a lower economic basis in 2006 and lower free asset balances.

General insurance

The results of the general insurance business are set out below.

	Statutory			Excluding volatility		
	2007 £m	2006 £m	2005 £m	**2007 £m**	2006 £m	2005 £m
Net interest income	**23**	24	23	**23**	24	23
Other income	**554**	594	571	**561**	576	543
Total income	**577**	618	594	**584**	600	566
Insurance claims	**(302)**	(200)	(197)	**(302)**	(200)	(197)
Total income, net of insurance claims	**275**	418	397	**282**	400	369
Operating expenses	**(154)**	(157)	(160)	**(154)**	(157)	(160)
Profit before tax, excluding volatility				**128**	243	209
Volatility				**(7)**	18	28
Profit before tax	**121**	261	237	**121**	261	237

	2007 £m	2006 £m	2005 £m
Premium income from underwriting:			
Creditor	**164**	180	127
Home	**441**	424	441
Health	**9**	13	16
Reinsurance premiums	**(23)**	(17)	(22)
	591	600	562
Commissions from insurance broking:			
Creditor	**394**	377	396
Home	**49**	47	49
Health	**12**	13	15
Other	**193**	192	221
	648	629	681

2007 compared to 2006

Profit before tax, on a statutory basis, from the Lloyds TSB Group's general insurance operations was £140 million, or 54 per cent, lower at £121 million in 2007 compared to £261 million in 2006. Excluding volatility, profit before tax was £115 million, or 47 per cent, lower at £128 million in 2007 compared to £243 million in 2006.

Net interest income was £1 million, or 4 per cent, lower at £23 million in 2007 compared to £24 million in 2006.

Other income, on a statutory basis, was £40 million, or 7 per cent, lower at £554 million in 2007 compared to £594 million in 2006. Insurance broking commissions receivable were £19 million, or 3 per cent, higher at £648 million in 2007 compared to £629 million in 2006; this is driven primarily by improved Creditor performance (up £17 million in 2007) and reflects higher loan protection sales volumes across the UK Retail Banking branch network. Underwriting income, net of reinsurance, was £9 million, or 2 per cent, lower at £591 million in 2007 compared to £600 million in 2006; increased income in respect of home insurance policies has been more than offset by reductions in respect of creditor protection products, partly due to lower average card balances, and an increased reinsurance cost. Fees and commissions payable were £28 million, or 4 per cent, higher at £692 million in 2007 compared to £664 million in 2006; this largely reflects fluctuations in branch network sales volumes.

Insurance claims expense was £102 million, or 51 per cent, higher at £302 million in 2007 compared to £200 million in 2006 largely as a result of a £113 million increase in weather related claims, resulting from storms in January 2007 and severe flooding in June and July 2007 in the UK.

Operating expenses were £3 million, or 2 per cent, lower at £154 million in 2007 compared to £157 million in 2006 reflecting continued focus on improving operational costs and processing efficiency.

2006 compared to 2005

Profit before tax, on a statutory basis, from the Lloyds TSB Group's general insurance operations was £24 million, or 10 per cent, higher at £261 million in 2006 compared to £237 million in 2005. Excluding volatility, profit before tax was £34 million, or 16 per cent, higher at £243 million in 2006 compared to £209 million in 2005.

Net interest income was £1 million, or 4 per cent, higher at £24 million in 2006 compared to £23 million in 2005.

Other income, on a statutory basis, was £23 million, or 4 per cent, higher at £594 million in 2006 compared to £571 million in 2005. Insurance broking commissions receivable were £52 million, or 8 per cent, lower at £629 million in 2006 compared to £681 million in 2005; this reflected lower loan protection product sales in the first half of 2006, reduced card protection income due to lower average balances outstanding and fluctuations in the level of retrospective commissions. Premium income, net of reinsurance, was £38 million, or 7 per cent, higher at £600 million in 2006 compared to £562 million in 2005; this reflected the commencement, during 2006, of underwriting of card and commercial loan protection products, partly offset by a fall in home insurance income. Fees and commissions payable were £31 million, or 4 per cent, lower at £664 million in 2006 compared to £695 million in 2005; this largely reflected fluctuations in branch network sales volumes.

Insurance claims expense was £3 million, or 2 per cent, higher at £200 million in 2006 compared to £197 million in 2005 as the impact of the new creditor protection underwriting in 2006 was partly offset by a lower charge in respect of home insurance.

Operating expenses were £3 million, or 2 per cent, lower at £157 million in 2006 compared to £160 million in 2005. Staff costs increased due to the use of agency staff on project work, but this was more than offset by lower marketing expenditure and other cost-saving initiatives.

Wholesale and International Banking

	2007 £m	2006 £m	2005 £m
Net interest income	**2,518**	2,177	2,037
Other income	**1,773**	2,035	1,856
Total income	**4,291**	4,212	3,893
Operating expenses	**(2,282)**	(2,264)	(2,181)
Trading surplus	**2,009**	1,948	1,712
Impairment	**(572)**	(308)	(188)
Profit (loss) on sale of businesses	**385**	—	(6)
Profit before tax†	**1,822**	1,640	1,518
Cost:income ratio	**53.2%**	53.8%	56.0%
Total assets (year end)	**£163,294m**	£147,836m	£124,044m
Total risk-weighted assets (year end)	**£105,145m**	£91,843m	£80,154m

† No volatility arises within Wholesale and International Banking and so these results are both statutory and excluding volatility.

2007 compared to 2006

Profit before tax from Wholesale and International Banking was £182 million, or 11 per cent, higher at £1,822 million in 2007 compared to £1,640 million in 2006. However, in 2007 profit before tax was particularly impacted by the profit on sale of businesses of £385 million (principally relating to Lloyds TSB Registrars) and by turbulence in global financial markets which reduced profit before tax by £280 million. Excluding both of these items, profit before tax in 2007 was £1,717 million which was £77 million, or 5 per cent, higher than 2006.

Net interest income was £341 million, or 16 per cent, higher at £2,518 million compared to £2,177 million in 2006. This increase reflected growth in customer lending and customer deposits in Corporate Markets and Commercial Banking. Average interest-earning assets were £13,132 million, or 11 per cent, higher at £135,707 million. Excluding the fine margin reverse repurchase agreement balances from both years, the increase was £14,602 million. The net interest margin, again excluding the fine margin reverse repurchase agreement balances, increased by 4 basis points, as a widening of margins within Corporate Markets, in part as a result of changes in funding arrangements, was partly offset by decreased margins in Commercial Banking, where growth has been in the most competitive products, and in Asset Finance.

Other income was £262 million, or 13 per cent, lower at £1,773 million compared to £2,035 million in 2006; of this movement a decrease of £188 million is attributable to the impact of the market turbulence, excluding which, other income decreased by £74 million, or 4 per cent. Increases in banking and transactional income were offset by a reduced level of company registration fees (following the sale of Lloyds TSB Registrars at the end of September 2007) and the impact of changes in funding arrangements.

Operating expenses were £18 million, or 1 per cent, higher at £2,282 million in 2007 compared to £2,264 million in 2006. The increase reflected continued staff investment particularly in the Corporate Markets and Commercial Banking businesses, offset by improvements in the management of day-to-day operating costs.

The impairment charge in 2007 totalled £572 million, of which £92 million is attributable to the impact of market turbulence, compared to £308 million in 2006, an increase of £264 million, or 86 per cent. The charge in respect of loans and advances increased by £184 million, or 59 per cent, from £313 million in 2006 to £497 million in 2007 and the charge as a percentage of average lending was 0.57 per cent compared to 0.39 per cent in 2006. In Corporate Markets the charge was £179 million higher, at £165 million compared to a release of £14 million in 2006; there were significant new charges for certain Corporate customers as well as a charge of £28 million in the leasing business resulting from the change in the UK Corporation tax rate from 30 per cent to 28 per cent in 2007, whereas there were net releases in 2006. In Commercial Banking the charge was £5 million higher, at £99 million, and in Asset Finance the charge was £11 million lower, at £228 million, following a tightening of underwriting criteria. In International Banking and other businesses there was a charge of £5 million compared with a release of £6 million in 2006. In addition, a charge of £70 million in 2007 (2006: £nil) arose in respect of the impairment of available-for-sale financial assets.

2006 compared to 2005

Profit before tax from Wholesale and International Banking was £122 million, or 8 per cent, higher at £1,640 million in 2006 compared to £1,518 million in 2005.

Net interest income was £140 million, or 7 per cent, higher at £2,177 million compared to £2,037 million in 2005. Average interest-earning assets were £18,823 million, or 18 per cent, higher at £122,575 million in 2006 compared to £103,752 million in 2005. Excluding the fine margin reverse repurchase agreement balances from both years, the increase was £17,782 million. Strong growth in corporate lending, as well as in lower-margin treasury and structured finance balances, led to an increase in average balances within Corporate Markets. Continued lending growth led to an increase in average balances within Commercial Banking and average interest-earning assets in Asset Finance were also higher, largely due to lending growth over 2005. The significant growth in average balances, however, was partly offset by a 25 basis point decrease in the net interest margin (excluding fine margin reverse repurchase agreement balances) as a result of a change in mix since the growth in assets has been predominantly in corporate lending and in the finer margin treasury and structured finance balances.

Other income was £179 million, or 10 per cent, higher at £2,035 million compared to £1,856 million in 2005. Other income largely comprised net fee and commission income, trading profits and operating lease rental income. Net fee and commission income was higher from mid-corporate lending and new product revenue streams in structured products and debt capital markets, as well as good growth in asset-backed lending. There was a slight fall in operating lease rental income offset by increased gains on sale of available-for-sale investments.

Operating expenses were £83 million, or 4 per cent, higher at £2,264 million in 2006 compared to £2,181 million in 2005. Staff costs were higher as a result of annual pay awards and staff taken on to support the expansion of the business; business success also led to increasing levels of bonus payments. These increases were, in part, offset by efficiency savings.

Impairment losses totalled £308 million in 2006 compared to £188 million in 2005. Impairment losses on loans and advances were £122 million, or 64 per cent, higher at £313 million in 2006 compared to £191 million in 2005. Within Corporate Markets, net releases were lower than in 2005, as some significant one-off releases were not repeated. Within Commercial Banking, the charge was higher, as a result of lending growth. The charge within Asset Finance also increased reflecting rising levels of consumer arrears and voluntary terminations. Overall, the Wholesale and International Banking impairment charge in respect of loans and advances expressed as a percentage of average lending increased to 0.39 per cent in 2006 compared to 0.28 per cent in 2005.