2005 compared to 2004

The impairment charge in respect of loans and advances and other credit risk provisions was £433 million, or 50 per cent, higher at £1,299 million compared to £866 million in 2004. This represented a charge in respect of loans and advances of £1,302 million slightly offset by a release of £3 million from provisions held in respect of contingent liabilities and commitments.

The impairment charge in respect of loans and advances in 2005 was significantly affected by the adoption of the requirements of IAS 39 with effect from 1 January 2005. IAS 39 requires the impairment provision to be calculated by comparing the carrying value of the loan with the discounted value of future cash flows. As a result, in circumstances where a customer’s borrowings have been rescheduled onto a concessionary rate which is below market interest rate, an impairment allowance will be required even where full recovery of the principal is anticipated; this had the effect of increasing the 2005 charge by £209 million.

Excluding this effect, underlying impairment losses on loans and advances in 2005 totalled £1,093 million, £227 million or 26 per cent higher than £866 million in 2004.

The underlying charge in UK Retail Banking rose by £229 million, or 34 per cent, to £905 million in 2005. The charges in respect of personal loans and overdrafts and credit cards increased by £112 million and £65 million respectively as a result of volume growth and some deterioration in credit quality. There was a charge of £13 million in respect of the mortgage portfolio, compared to a release of £39 million in 2004.

The underlying charge in Wholesale and International Banking was £188 million compared to £193 million in 2004. The underlying charge within Corporate Markets was £91 million lower as a result of lower new provisions and maintaining a good level of recoveries; this was partially offset by higher charges in Asset Finance. The charge within Business Banking, which deals with small business customers, was little changed. Within International Banking, there was a credit of £15 million in 2005 compared to a credit of £39 million in 2004; both years benefited from good recoveries in Latin America although 2004 also benefited from a release of £30 million from the Lloyds TSB Group’s centrally held provision in respect of exposures in Argentina.

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 0.76 per cent compared to 0.59 per cent in 2004; although excluding the impact of IAS 39 the charge represented 0.66 per cent of average lending in 2005.

Taxation

	2006 £m	2005 £m	2004 £m
UK corporation tax:			
– Current tax on profits for the year	**1,024**	862	759
– Adjustments in respect of prior years	**(137)**	(20)	(69)
	887	842	690
Double taxation relief	**(195)**	(138)	(57)
	692	704	633
Foreign tax:			
– Current tax on profits for the year	**83**	78	118
– Adjustments in respect of prior years	**(8)**	(8)	(2)
	75	70	116
Current tax charge	**767**	774	749
Deferred tax	**574**	491	269
Total charge	**1,341**	1,265	1,018

2006 compared to 2005

The rate of tax is influenced by the geographic and business mix of profits. 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). 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. Excluding these items 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 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.

2005 compared to 2004

The effective rate of tax in 2005 was 33.1 per cent, compared to an effective rate of tax in 2004 of 29.3 per cent and the corporation tax rate in 2005 of 30 per cent (2004: 30 per cent). Excluding the policyholders’ tax and OEIC interests, the effective tax rate in 2005 was 27.0 per cent compared to 28.3 per cent in 2004. The reduced effective tax rate in 2005 on this adjusted basis was primarily due to tax benefits arising on disposal and other gains.

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 calculated in the Lloyds TSB Group's Form 20-F, 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.

	2006 **£m**	2005 £m	2004 £m
Average shareholders' equity	**10,531**	9,747	10,493
Profit before tax	**4,248**	3,820	3,477
Taxation	**(1,341)**	(1,265)	(1,018)
Profit attributable to minority interests	**(104)**	(62)	(67)
Profit attributable to equity shareholders	**2,803**	2,493	2,392
Less: notional charge for the cost of equity	**(948)**	(877)	(944)
Economic profit	**1,855**	1,616	1,448

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.

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. The increase in average equity primarily reflects profit retentions, after dividends, over 2005 and 2006.

2005 compared to 2004

Economic profit increased to £1,616 million in 2005 compared to £1,448 million in 2004. Profit attributable to equity shareholders increased by £101 million, or 4 per cent, to £2,493 million; the notional charge on average equity, however, was £67 million lower, as a result of a 7 per cent decrease in average equity to £9,747 million compared to £10,493 million in 2004. The decrease in average equity primarily reflected the decrease of £1,558 million arising from the implementation of IAS 32, IAS 39 and IFRS 4 with effect from 1 January 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. See page 33 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**		
	2006 £m	2005 £m	2004* £m	**2006 £m**	2005 £m	2004* £m
UK Retail Banking	**1,549**	1,394	1,639	**1,549**	1,394	1,639
Insurance and Investments	**1,383**	1,474	916	**973**	725	778
Wholesale and International Banking	**1,640**	1,518	1,272	**1,640**	1,518	1,272
Central group items	**(324)**	(566)	(350)	**(321)**	(442)	(350)
Profit before tax, excluding volatility				**3,841**	3,195	3,339
Volatility				**407**	625	138
Profit before tax	**4,248**	3,820	3,477	**4,248**	3,820	3,477

* Comparative figures for 2004 were restated to reflect the adoption of those IFRS standards which were required to be applied retrospectively, but do not reflect the additional impacts arising from first time application of IAS 32 'Financial Instruments: Disclosure and Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' (including UK Financial Reporting Standard 27 'Life Assurance'), which were implemented with effect from 1 January 2005, with the opening balance sheet at that date adjusted accordingly.

UK Retail Banking

	2006 £m	2005 £m	2004 £m
Net interest income	**3,642**	3,521	3,228
Other income	**1,621**	1,605	1,696
Total income	**5,263**	5,126	4,924
Operating expenses	**(2,476)**	(2,697)	(2,609)
Trading surplus	**2,787**	2,429	2,315
Impairment losses on loans and advances	**(1,238)**	(1,111)	(676)
Profit on sale of businesses	**–**	76	–
Profit before tax†	**1,549**	1,394	1,639
Cost:income ratio	**47.0%**	52.6%	53.0%
Total assets (year-end)*	**£108,381m**	£103,930m	£96,472m
Total risk-weighted assets (year-end)*	**£59,101m**	£60,582m	£57,241m

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

* To ensure comparability, 2004 asset and risk-weighted asset figures are shown as at 1 January 2005, following implementation of those international accounting standards for which restated comparatives were not required.

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 includes, 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 are £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 reflects 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 represents net fee and commission income; the moderate growth reflects 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 has been partly offset by a reduction in card fee income following the sale of the Goldfish portfolio at the end of 2005. There has also been 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 includes, 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 reflects 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 reflects 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 remains good and there was an impairment charge of £8 million in 2006 compared to £13 million in 2005.

2005 compared to 2004

Profit before tax from UK Retail Banking decreased by £245 million, or 15 per cent, to £1,394 million, compared to £1,639 million in 2004. However, comparisons of performance were affected by the impact of the accounting standards implemented with effect from 1 January 2005, which reduced the profit of UK Retail Banking in 2005 by £213 million; excluding this profit before tax was £1,607 million in 2005 which was £32 million, or 2 per cent, lower than 2004.

Net interest income was £293 million, or 9 per cent, higher at £3,521 million compared to £3,228 million; excluding the impact of IAS 39 which was implemented with effect from 1 January 2005, net interest income was £79 million, or 2 per cent, higher at £3,307 million. During 2005, good levels of growth were achieved in all key product areas. Gross new mortgage lending for the Group totalled £25,979 million; net new lending totalled £8,311 million resulting in a market share of net new lending of 9.1 per cent, and mortgage balances outstanding increased by 10 per cent to £88,376 million. Personal loan balances outstanding at the year-end were £11,023 million, an increase of 3 per cent and credit card balances totalled £7,209 million, an increase of 9 per cent, after adjusting to exclude the effect of the Goldfish disposal. Credit balances on current accounts and savings and investment accounts increased by 7 per cent. The benefit of this volume growth was, however, partly offset by reduced margins on mortgages and personal loans, as a result of competitive pressures.

Other income was £91 million, or 5 per cent, lower at £1,605 million compared to £1,696 million in 2004; however, excluding the effect of those accounting standards applied with effect from 1 January 2005 other income was £115 million, or 7 per cent, higher at £1,811 million. This increase in underlying other income reflected growth in current account fees, due to the continuing success of added-value accounts and the benefit of tariff reviews; increased card fee income, particularly in relation to overseas-use charges; and income from the successful new wealth management products.

Operating expenses were £88 million, or 3 per cent, higher at £2,697 million. Of this increase, £50 million was as a result of an increased charge in respect of customer redress, mainly relating to past sales of endowment products through the branch network, following a review by the Lloyds TSB Group of the expected total cost, in the light of the introduction of time-barring and a consequent increase in claims. Underlying operating expenses remained well controlled with the residual increase being largely attributable to higher levels of restructuring costs as back office operations continued to be rationalised.

Impairment losses on loans and advances, at £1,111 million, were £435 million or 64 per cent higher than 2004. The impact of the accounting standards applied with effect from 1 January 2005 accounted for £206 million of this increase; excluding this underlying impairment losses were £229 million, or 34 per cent, higher at £905 million in 2005. The charge in respect of personal loans, overdrafts and credit cards increased as a result of volume growth over recent years as well as some deterioration in credit quality. Within the mortgage business there continued to be a low level of losses and as a result the impairment charge was £13 million, compared to a release of £39 million in 2004. C&G continued to focus on prime lending market segments during 2005. The average indexed loan-to-value ratio for C&G new mortgages and further advances written during 2005 was 64 per cent. At 31 December 2005, 95 per cent of C&G mortgage balances had an indexed loan-to-value ratio of less than 85 per cent and only 0.6 per cent of balances had an indexed loan-to-value ratio in excess of 95 per cent.

A profit of £76 million arose in 2005 on the disposal of the Goldfish credit card business.

Insurance and Investments

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

In addition to presenting Insurance and Investments results prepared in accordance with applicable accounting standards, all monthly financial reporting to the group executive committee and board separately presents the results of the 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 Lloyds TSB Group's use of volatility is provided in 'Operating and financial review and prospects – Line of business information – Volatility'.

	Statutory			Excluding volatility		
	2006 £m	2005 £m	2004 £m	**2006 £m**	2005 £m	2004 £m
Net interest income	**103**	395	283	**134**	389	283
Other income	**10,487**	13,859	10,874	**10,046**	13,116	10,736
Total income	**10,590**	14,254	11,157	**10,180**	13,505	11,019
Insurance claims	**(8,569)**	(12,186)	(9,622)	**(8,569)**	(12,186)	(9,622)
Total income, net of insurance claims	**2,021**	2,068	1,535	**1,611**	1,319	1,397
Operating expenses	**(638)**	(594)	(622)	**(638)**	(594)	(622)
Trading surplus	**1,383**	1,474	913	**973**	725	775
Impairment losses on loans and advances – credit	**—**	—	3	**—**	—	3
Profit before tax, excluding volatility				**973**	725	778
Volatility				**410**	749	138
Profit before tax	**1,383**	1,474	916	**1,383**	1,474	916
Further analysis of other income:						
Net fee and commission expense	**(125)**	(112)	(164)	**(125)**	(112)	(164)
Net trading income	**5,668**	8,859	4,798	**5,308**	8,375	4,651
Insurance premium income	**4,719**	4,469	6,070	**4,719**	4,469	6,070
Other operating income	**225**	643	170	**144**	384	179
Other income, excluding volatility				**10,046**	13,116	10,736
Volatility				**441**	743	138
Other income	**10,487**	13,859	10,874	**10,487**	13,859	10,874
Analysis by area of business of profit before tax						
Life, pensions and OEICs	**1,093**	1,221	728	**701**	500	598
General insurance	**261**	237	180	**243**	209	172
Scottish Widows Investment Partnership	**29**	16	8	**29**	16	8
Profit before tax, excluding volatility				**973**	725	778
Volatility				**410**	749	138
Profit before tax	**1,383**	1,474	916	**1,383**	1,474	916

2006 compared to 2005

Profit before tax from the Lloyds TSB Group’s Insurance and Investments businesses 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 reflects 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 reflects 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 reflects 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 is, 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).

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

2005 compared to 2004

Profit before tax from the Lloyds TSB Group’s Insurance and Investments businesses was £1,474 million which was £558 million, or 61 per cent, higher than £916 million in 2004. However, much of this increase was due to volatility arising from market movements (see ‘Operating and financial review and prospects – Line of business information – Volatility’) and profit before tax excluding volatility was £53 million, or 7 per cent, lower at £725 million compared to £778 million in 2004. The 2005 results were reduced by a provision of £155 million for the strengthening of mortality reserves. The impact of the new accounting standards applied with effect from 1 January 2005 was to reduce profit before tax, excluding volatility, by £73 million; excluding this effect profit before tax was £20 million, or 3 per cent, higher at £798 million compared to £778 million in 2004.

Net interest income was £112 million, or 40 per cent, higher at £395 million compared to £283 million in 2004. This increase reflected higher average levels of cash deposit investments in long-term business and policyholder funds.

Other income, excluding volatility, was £2,380 million, or 22 per cent, higher at £13,116 million compared to £10,736 million in 2004. One of the impacts of the application of IFRS 4 with effect from 1 January 2005 was the need to reclassify as investment contracts certain transactions that were previously treated as insurance contracts. This resulted in a decrease in other income largely offset by a decrease in insurance claims. Adjusting for this effect, underlying other income in 2005 was £15,820 million which was £5,084 million, or 47 per cent, higher than £10,736 million in 2004. This increase in underlying other income was principally due to a £1,131 million increase in insurance premium income, reflecting improved sales and increased policyholder activity, together with a £3,724 million increase in net trading income. Net trading income represents the realised and unrealised gains on investments held in the long-term funds, together with the interest and dividend income on those investments, and the significant increase in 2005 reflected improved market returns.

The increases in premium income and trading income were largely offset by a matching increase in insurance claims, reflecting the fact that the majority of the premium inflows and investment gains are for the benefit of policyholders. Insurance claims were £2,564 million, or 27 per cent, higher at £12,186 million in 2005 compared to £9,622 million in 2004. If the 1 January 2005 reclassifications to investment contracts, described above, are excluded underlying insurance claims were £5,172 million, or 54 per cent, higher at £14,794 million in 2005, compared to £9,622 million in 2004.

Operating expenses reduced by £28 million, or 5 per cent, from £622 million in 2004 to £594 million in 2005. This decrease reflected the absence of a charge in respect of customer redress (£12 million in 2004) and a net credit in respect of deferred acquisition costs of £45 million in 2005, following the adoption of IFRS 4 with effect from 1 January 2005. Adjusting for these items, underlying operating expenses were £639 million in 2005, £29 million or 5 per cent higher than £610 million in 2004. This underlying increase in operating expenses reflected increased business volumes and some targeted project expenditure.

Life, pensions and OEICs

The tables below show measures of new business premiums for the life and pensions business and OEIC sales, which management monitor because they provide an indication of both the performance and the profitability of the business.

Weighted sales has historically been the UK insurance industry standard for measuring new business volumes; the weighting being made towards regular premium policies to reflect the long-term nature of these contracts. However, industry practice is now moving towards an alternative basis of calculation – 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. An analysis of new business sales on a PVNBP basis is set out below for 2006 and 2005 together with analyses on a weighted sales basis for 2006, 2005 and 2004. 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)	2006 £m	2005 £m
Life and pensions:		
Savings and investments	**1,300**	1,465
Protection	**232**	255
Individual pensions	**2,219**	2,197
Corporate and other pensions	**1,961**	1,517
Retirement income	**960**	658
Managed fund business	**348**	535
Life and pensions	**7,020**	6,627
OEICs	**2,720**	1,215
Life, pensions and OEICs	**9,740**	7,842
Single premium business	**7,321**	5,636
Regular premium business	**2,419**	2,206
Life, pensions and OEICs	**9,740**	7,842
Bancassurance	**3,421**	2,114
Independent financial advisers	**5,358**	4,698
Direct	**613**	495
Managed fund business	**348**	535
Life, pensions and OEICs	**9,740**	7,842

Weighted sales (regular + 1/10 single)	2006 £m	2005 £m	2004 £m
Life and pensions (including Managed Fund business)	**902**	804	676
OEICs	**290**	148	86
Life, pensions and OEICs	**1,192**	952	762
Weighted sales by distribution channel:			
Bancassurance	**403**	274	242
Independent financial advisers	**679**	562	432
Direct	**75**	66	69
	1,157	902	743
Managed Fund business	**35**	50	19
Life, pensions and OEICs	**1,192**	952	762

2006 compared to 2005

Overall life, pensions and OEICs sales, measured on a PVNBP basis, 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 reflects 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 have 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), on a PVNBP basis, 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 reflects competitive pressures and the limiting of investments into the SWIP Property Fund; Managed fund business is 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 £660 million, or 14 per cent, higher at £5,358 million in 2006 compared to £4,698 million in 2005; this reflects 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.

On an annual premium equivalent basis, overall sales of life, pensions and OEIC products were £240 million, or 25 per cent, higher at £1,192 million in 2006 compared to £952 million in 2005. OEICs sales were £142 million, or 96 per cent, higher at £290 million in 2006 compared to £148 million in 2005; this reflects the successful tax year end campaign and developing sales through to the Mass Affluent market. Life and pensions sales were £98 million, or 12 per cent, higher at £902 million in 2006 compared to £804 million in 2005 as a result of the strong Corporate and other pensions and Retirement income sales, in part offset by the reduction in Savings and investments.

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.

2005 compared to 2004

Overall, weighted sales in 2005 increased by £190 million, or 25 per cent, to £952 million in 2005 compared to £762 million in 2004 and as a result the Lloyds TSB Group’s life, pensions and investments market share increased significantly to 6.0 per cent, compared with 5.7 per cent in 2004. Strong growth in sales of pension products, as a result of more focused marketing, more than offset lower life protection sales, resulting from the slow down in the housing market. Single premium life sales increased, particularly the Unit Linked Flexible Options Bond product, and single premium pension sales were higher, again as a result of the specific marketing focus.

Total OEICs sales increased significantly compared to 2004. Regular premium sales were little changed with the increase being in single premium sales, primarily through Bancassurance; this reflected a successful campaign in relation to the April 2005 tax year end and built on the launch of the simplified product suite that was introduced at the end of 2004.

By distribution channel, Bancassurance weighted sales were £32 million, or 13 per cent, higher at £274 million compared to £242 million in 2004; this reflected, in particular, the successful OEIC sales. Weighted sales via independent financial advisers were £130 million, or 30 per cent, higher at £562 million in 2005 compared to £432 million in 2004 supported by significant product and service enhancements; as a result the Lloyds TSB Group’s market share of the IFA market improved to 6.5 per cent, compared with 5.9 per cent in 2004.

Profit before tax, on a statutory basis, from life, pensions and OEICs was £493 million, or 68 per cent, higher at £1,221 million in 2005 compared to £728 million in 2004. Profit before tax, excluding volatility, was £98 million, or 16 per cent, lower at £500 million compared to £598 million in 2004. Profitability in 2005 benefited from the absence of a provision for customer redress (2004: £12 million) but the results in 2005 were reduced by a provision of £155 million for the strengthening of mortality reserves. Adjusting for these items, profit before tax, excluding volatility, in 2005 was £655 million compared to £610 million in 2004, an increase of £45 million or 7 per cent. The strong sales led to an increased contribution from new business, partly offset by a commensurate increase in distribution costs. Improved investment earnings resulted from higher cash balances held for the account of the shareholder. OEICs profitability rose following improved markets and sales volumes.

General insurance

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

	Statutory			Excluding volatility		
	2006 £m	2005 £m	2004 £m	**2006 £m**	2005 £m	2004 £m
Net interest income	**24**	23	44	**24**	23	44
Other income	**594**	571	504	**576**	543	496
Total income	**618**	594	548	**600**	566	540
Insurance claims	**(200)**	(197)	(214)	**(200)**	(197)	(214)
Total income, net of insurance claims	**418**	397	334	**400**	369	326
Operating expenses	**(157)**	(160)	(154)	**(157)**	(160)	(154)
Profit before tax, excluding volatility				**243**	209	172
Volatility				**18**	28	8
Profit before tax	**261**	237	180	**261**	237	180

	2006 £m	2005 £m	2004 £m
Premium income from underwriting:			
Creditor	**180**	127	114
Home	**424**	441	442
Health	**13**	16	27
Reinsurance premiums	**(17)**	(22)	(29)
	600	562	554
Commissions from insurance broking:			
Creditor	**377**	396	442
Home	**47**	49	45
Health	**13**	15	20
Other	**192**	221	165
	629	681	672

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 reflects 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 reflects 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 reflects 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 has been 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 have increased due to the use of agency staff on project work, but this has been more than offset by lower marketing expenditure and other cost-saving initiatives.

2005 compared to 2004

Profit before tax, on a statutory basis, from the general insurance business was £57 million, or 32 per cent, higher at £237 million in 2005 compared to £180 million in 2004. Profit before tax, excluding volatility, was £209 million in 2005, which was £37 million, or 22 per cent, higher than £172 million in 2004. Net interest income was £21 million lower at £23 million, compared to £44 million in 2004, principally reflecting the adoption of IFRS 4 and IAS 39 from 1 January 2005.

Other income, excluding volatility, was £47 million, or 9 per cent, higher at £543 million compared to £496 million in 2004; £18 million of this reflected the impact of the accounting standards applied with effect from 1 January 2005 giving an underlying increase of £29 million, or 6 per cent. Premium income from underwriting, net of reinsurance, was £8 million, or 1 per cent, higher at £562 million; creditor insurance income was higher as a result of the business written in conjunction with the Lloyds TSB Group's asset finance businesses but health premium income declined as a result of the transfer of part of this business to BUPA in 2004. Insurance broking commissions were £9 million, or 1 per cent, higher at £681 million compared to £672 million in 2004; creditor commissions were £46 million lower, as a result of a slowdown in unsecured lending growth during 2005. Other commissions, however, were £56 million higher due largely to higher levels of retrospective income on existing business.

Insurance claims, at £197 million, were £17 million, or 8 per cent, lower than £214 million in 2004. Creditor insurance payouts were lower due to a lower level of unemployment claims and home insurance claims were lower due to the relatively benign weather conditions. Health claims also fell, following the transfer of part of this business in 2004. The general insurance underwriting ratio improved to 34 per cent compared to 37 per cent in 2004.

Operating expenses, at £160 million, were £6 million, or 4 per cent, higher than £154 million in 2004; this increase reflected higher marketing spend together with some specific project costs.

Wholesale and International Banking

	2006 £m	2005 £m	2004 £m
Net interest income	**2,385**	2,265	2,006
Other income	**1,827**	1,628	1,558
Total income	**4,212**	3,893	3,564
Operating expenses	**(2,264)**	(2,181)	(2,078)
Trading surplus	**1,948**	1,712	1,486
Impairment losses on loans and advances	**(308)**	(188)	(193)
Loss on sale of businesses	**—**	(6)	(21)
Profit before tax†	**1,640**	1,518	1,272
Cost:income ratio	**53.8%**	56.0%	58.3%
Total assets (year-end)*	**£ 147,836m**	£124,044m	£123,826m
Total risk-weighted assets (year-end)*	**£91,843m**	£80,154m	£71,013m

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

* To ensure comparability, 2004 asset and risk-weighted asset figures are shown as at 1 January 2005, following implementation of those international accounting standards for which restated comparatives were not required.

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 £120 million, or 5 per cent, higher at £2,385 million compared to £2,265 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 of £16,398 million in average balances within Corporate Markets. Continued lending growth led to a £994 million increase in average balances within Business Banking and average interest-earning assets in Asset Finance were £415 million higher, largely due to lending growth over 2005. The significant growth in average balances, however, was partly offset by a 31 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 predominately in corporate lending and in the finer margin treasury and structured finance balances.

Other income was £199 million, or 12 per cent, higher at £1,827 million compared to £1,628 million in 2005. Other income largely comprises 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 and decreased dealer commissions payable within the asset finance business. There was a slight fall in operating lease rental income offset by increased gains on sale of available-for-sale investments.