MATTEL INC /DE/
Form 10-K
February 26, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to ___________

Commission File Number 001-05647

MATTEL, INC.

(Exact name of registrant as specified in its charter)

Delaware	95-1567322
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

333 Continental Blvd.

El Segundo, CA 90245-5012

(Address of principal executive offices)

(310) 252-2000

(Registrant s telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ¨

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant calculated using the market price as of the close of business June 30, 2007 was $10,038,118,661.

Number of shares outstanding of registrant s common stock, $1.00 par value, as of February 22, 2008:

361,358,598 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Mattel, Inc. 2008 Notice of Annual Meeting of Stockholders and Proxy Statement, to be filed with the Securities and Exchange Commission (SEC) within 120 days after the close of the registrant s fiscal year (incorporated into Part III).

MATTEL, INC. AND SUBSIDIARIES

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PART I

Item 1. Business.

Mattel, Inc. (Mattel) designs, manufactures, and markets a broad variety of toy products worldwide through sales to its customers and directly to consumers. Mattel s vision is to provide the world s premier toy brands today and tomorrow. Management has set six key company strategies: (i) improve execution of the existing toy business; (ii) globalize the brands; (iii) extend the brands into new areas; (iv) catch new trends, create new brands, and enter new categories; (v) develop people; and (vi) improve productivity, simplify processes, and maintain customer service levels.

Mattel believes its products are among the most widely recognized toy products in the world. Mattel s portfolio of brands and products are grouped in the following categories:

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket®, Little Mommy®, Disney Classics, Pixel Chix®, and High School Musical (collectively Other Girls Brands), Hot Wheels®, Matchbox®, and Tyco® R/C vehicles and playsets (collectively Wheels), and CARS, Radica® products, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear, and View-Master® (collectively Core Fisher-Price®), Sesame Street®, Dora the Explorer, Winnie the Pooh, Go-Diego-Go!, and See N Say® (collectively Fisher-Price® Friends), and Power Wheels®.

American Girl Brands including Just Like You®, the historical collection and Bitty Baby®. American Girl Brands products are sold directly to consumers, and its children s publications are also sold to certain retailers.

Mattel was incorporated in California in 1948 and reincorporated in Delaware in 1968. Its executive offices are located at 333 Continental Blvd., El Segundo, California 90245-5012, telephone number (310) 252-2000.

Business Segments

Mattel refers to Mattel, Inc. and its subsidiaries as a whole, unless the context requires otherwise. This narrative discussion applies to all segments except where otherwise stated. Mattel s reportable segments are separately managed business units and are divided on a geographic basis between domestic and international. The Domestic segment is further divided into Mattel Girls & Boys Brands US, Fisher-Price Brands US, and American Girl Brands.

On October 10, 2005, Mattel announced the consolidation of its domestic Mattel Girls & Boys Brands and Fisher-Price Brands divisions into one division. The creation of the Mattel Brands division, which resulted in the consolidation of some management and support functions, preserves the natural marketing and design groups that are empowered to create and market toys based on gender and age groups and is expected to more effectively and efficiently leverage Mattel s scale. These changes are consistent with Mattel s ongoing goals to enhance innovation and

improve execution. In connection with this consolidation, Mattel executed an initiative in 2006 to streamline its workforce, primarily in El Segundo, California. The consolidation of these divisions did not change Mattel s operating segments.

For additional information on Mattel s operating segment reporting, including revenues, segment income, and assets, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Segment Results and Item 8 Financial Statements and Supplementary Data Note 11 to the Consolidated Financial Statements Segment Information. For additional information regarding geographic areas, see Item 8 Financial Statements and Supplementary Data Note 11 to the Consolidated Financial Statements Segment Information. For a discussion of the risks inherent in the

foreign operations of Mattel, which affect each segment, see Item 1A Risk Factors Factors That May Affect Future Results.

Domestic Segment

The Domestic segment develops toys that it markets and sells through the Mattel Girls & Boys Brands US, Fisher-Price Brands US, and American Girl Brands segments.

In the Mattel Girls & Boys Brands US segment, Barbie® includes brands such as Barbie® fashion dolls and accessories and Barbie® Collector, and Polly Pocket®, Pixel Chix®, Little Mommy®, High School Musical, and Disney Classics are included within Other Girls Brands. Wheels is comprised of Hot Wheels®, Matchbox®, and Tyco® R/C vehicles and playsets. Entertainment includes CARS and Radica® products, as well as games and puzzles.

In 2008, Mattel expects to introduce new products, including continuing to leverage content within its core brands. For Mattel Girls Brands, new product introductions include full-length animated launches of *Barbie®: Mariposa* in spring 2008, and *Barbie and the Diamond Castle* and *Barbie® in a Christmas Carol* in fall 2008. Polly Pocket® will be expanding its products in 2008 with Polly Pop N Swap products. New Wheels products will include innovative Trick Tracks sets for Hot Wheels®, and Power Scouts powered toys for Matchbox®. Mattel will introduce new products for Entertainment properties such as Warner Bros. Pictures upcoming Batman *The Dark Knight* and *Speed Racer* movies, and DreamWorks Animation s movie, *Kung Fu Panda* . Mattel will also expand on the success of its Disney Pixar CARS products. New games and puzzles products will include Scene It? Seinfeld, Apples to Apples® game properties, and the expansion of Radica® s 20Q Girl Tech®, and U.B.FUNKEYS products.

The Fisher-Price Brands US segment includes Fisher-Price®, Little People®, BabyGear, View-Master®, Sesame Street®, Dora the Explorer, Go-Diego-Go!, Mickey Mouse Clubhouse, Winnie the Pooh, My Friends Tigger & Pooh, Handy Manny, See N Say®, and Power Wheels®. New product introductions for 2008 are expected to include Smart Bounce & Spin Pony, Little People® Learn About Town, GeoAir High Flyin Airport, Kid-Tough® DVD Player, Power Wheels® A.T. Rex, Elmo Live, Dora Designer Dollhouse, Dora Prance & Fly Pegasus , Handy Manny 2-in-1 Transforming Tool Truck, Go-Diego-Go! Dinosaur Rescue Mountain, and the Mickey Motors Raceway.

The American Girl Brands segment is a direct marketer, children s publisher, and retailer best known for its flagship line of historical dolls, books, and accessories, as well as the Just Like You® and Bitty Baby® brands. American Girl Brands also publishes best-selling Advice & Activity books and the award-winning *American Girl®* magazine. In January 2008, American Girl® introduced Mia, the newest Girl of the Year® doll. In addition, American Girl®, along with HBO Films and Picturehouse, is releasing its first feature film, *Kit Kittredge®: An American Girl®* based on one of the most popular historical characters. New product introductions for 2008 are expected to include six new Bitty Twins® dolls. American Girl Brands products are sold only in the US and Canada.

International Segment

Products marketed by the International segment are generally the same as those developed and marketed by the Domestic segment, with the exception of American Girl Brands, although some are developed or adapted for particular international markets. Mattel s products are sold directly to retailers and wholesalers in most European, Latin American, and Asian countries, and in Australia, Canada, and New Zealand, and through agents and distributors in those countries where Mattel has no direct presence.

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Mattel s International segment revenue represented 49% of worldwide consolidated gross sales in 2007. Within the International segment, Mattel operates in four regions that generated the following gross sales during 2007:

	Amount	Percentage of International Gross Sales
	(In millions, except percentage information)	
Europe	$ 1,797.3	56%
Latin America	912.1	28
Asia Pacific	275.1	9
Other	220.8	7
	$ 3,205.3	100%

No individual country within the International segment exceeded 7% of worldwide consolidated gross sales during 2007.

The strength of the US dollar relative to other currencies can significantly affect the revenues and profitability of Mattel s international operations. Mattel enters into foreign currency forward exchange contracts, primarily to hedge its purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies, to limit the effect of exchange rate fluctuations on its results of operations and cash flows. See Item 7A Quantitative and Qualitative Disclosures About Market Risk and Item 8 Financial Statements and Supplementary Data Note 9 to the Consolidated Financial Statements Financial Instruments. For financial information by geographic area, see Item 8 Financial Statements and Supplementary Data Note 11 to the Consolidated Financial Statements Segment Information.

Manufacturing and Materials

Mattel manufactures toy products for all segments in both company-owned facilities and through third-party manufacturers. Products are also purchased from unrelated entities that design, develop, and manufacture those products. To provide greater flexibility in the manufacture and delivery of its products, and as part of a continuing effort to reduce manufacturing costs, Mattel has concentrated production of most of its core products in company-owned facilities and generally uses third-party manufacturers for the production of non-core products.

Mattel s principal manufacturing facilities are located in China, Indonesia, Thailand, Malaysia, and Mexico. Mattel also utilizes third-party manufacturers to manufacture its products in the US, Mexico, Brazil, Asia (including China and India), New Zealand, and Australia. To help avoid disruption of its product supply due to political instability, civil unrest, economic instability, changes in government policies, and other risks, Mattel produces many of its key products in more than one facility. Mattel believes that the existing production capacity at its own and its third-party manufacturers facilities is sufficient to handle expected volume in the foreseeable future. See Item 1A Risk Factors Factors That May Affect Future Results.

Mattel bases its production schedules for toy products on customer orders and forecasts, taking into account historical trends, results of market research, and current market information. Actual shipments of products ordered and order cancellation rates are affected by consumer acceptance of product lines, strength of competing products, marketing strategies of retailers, changes in buying patterns of both retailers and consumers, and overall economic conditions. Unexpected changes in these factors could result in a lack of product availability or excess inventory in a particular product line.

The foreign countries in which most of Mattel s products are manufactured (principally China, Indonesia, Thailand, Malaysia, and Mexico) all enjoy permanent normal trade relations (NTR) status under US tariff laws, which provides a favorable category of US import duties. China s NTR status became permanent in 2002,

following enactment of a bill authorizing such status upon the country s accession to the World Trade Organization (WTO), which occurred in 2001. Membership in the WTO substantially reduces the possibility of China losing its NTR status, which would result in increased costs for Mattel and others in the toy industry.

All US duties on toys were completely eliminated upon implementation of the Uruguay Round WTO agreement in 1995. The European Union, Japan, and Canada eliminated their tariffs on most toy categories through staged reductions that were completed by January 1, 2004. The primary toy tariffs still maintained by these countries are European Union and Japanese tariffs on dolls of 4.7% and 3.9%, respectively, and a Canadian tariff of 8.0% on children s wheeled vehicles.

The majority of Mattel s raw materials is available from numerous suppliers but may be subject to fluctuations in price.

Competition and Industry Background

Competition in the manufacture, marketing, and sale of toys is based primarily on quality, play value, and price. Mattel offers a diverse range of products for children of all ages and families that includes, among others, toys for infants and preschoolers, girls toys, boys toys, youth electronics, hand-held and other games, puzzles, educational toys, media-driven products, and fashion-related toys. The Mattel Girls & Boys Brands US and Fisher-Price Brands US segments compete with several large toy companies, including Bandai, Hasbro, Jakks Pacific, Leap Frog, Lego, MGA Entertainment, and VTech, many smaller toy companies, and several manufacturers of video games and consumer electronics. American Girl Brands competes with companies that manufacture girls toys and with children s book publishers and retailers. Mattel s International segment competes with global toy companies including Bandai, Hasbro, Lego, Tomy, and MGA Entertainment, and other national and regional toy companies and manufacturers of video games and consumer electronics. Foreign regions may include competitors that are strong in a particular toy line or geographical area, but do not compete with Mattel and other international toy companies worldwide.

Competition among the above companies is intensifying due to recent trends towards shorter life cycles for individual toy products, the phenomenon of children outgrowing toys at younger ages, and an increasing use of high technology in toys. In addition, a small number of retailers account for an increasingly larger portion of all toy sales, control the shelf space from which toys are viewed, and have direct contact with parents and children through in-store purchases, coupons, and print advertisements. Such retailers can and do promote their own private-label toys, facilitate the sale of competitors toys, and allocate shelf space to one type of toys over another.

Seasonality

Mattel s business is highly seasonal, with consumers making a large percentage of all toy purchases during the traditional holiday season. A significant portion of Mattel s customers purchasing occurs in the third and fourth quarters of Mattel s fiscal year in anticipation of such holiday buying. These seasonal purchasing patterns and requisite production lead times cause risk to Mattel s business associated with the underproduction of popular toys and the overproduction of toys that do not match consumer demand. Retailers are also attempting to manage their inventories more tightly in recent years, requiring Mattel to ship products closer to the time the retailers expect to sell the products to consumers. These factors increase the risk that Mattel may not be able to meet demand for certain products at peak demand times, or that Mattel s own inventory levels may be adversely impacted by the need to pre-build products before orders are placed. Additionally, as retailers manage their inventories, Mattel experiences cyclical ordering patterns for products and product lines that may cause its sales to vary significantly from period to period.

In anticipation of retail sales in the traditional holiday season, Mattel significantly increases its production in advance of the peak selling period, resulting in a corresponding build-up of inventory levels in the first three

quarters of its fiscal year. Seasonal shipping patterns result in significant peaks in the third and fourth quarters in the respective levels of inventories and accounts receivable, which result in seasonal working capital financing requirements. See Seasonal Financing.

Product Design and Development

Through its product design and development group, Mattel regularly refreshes, redesigns, and extends existing toy product lines and develops innovative new toy product lines for all segments. Mattel believes its success is dependent on its ability to continue this activity effectively. See Item 1A Risk Factors Factors That May Affect Future Results. Product design and development activities are principally conducted by a group of professional designers and engineers employed by Mattel. During 2007, 2006, and 2005, Mattel spent \$189.4 million, \$173.5 million, and \$182.0 million, respectively, in connection with the design and development of products, exclusive of royalty payments. See Item 8 Financial Statements and Supplementary Data Note 12 to the Consolidated Financial Statements Supplemental Financial Information.

Additionally, independent toy designers and developers bring concepts and products to Mattel and are generally paid a royalty on the net selling price of products licensed to Mattel. These independent toy designers may also create different products for other toy companies.

Advertising and Marketing

Mattel supports its product lines with extensive advertising and consumer promotions. Advertising takes place at varying levels throughout the year and peaks during the traditional holiday season. Advertising includes television and radio commercials, and magazine and newspaper advertisements. Promotions include in-store displays, sweepstakes, merchandising materials, and major events focusing on products and tie-ins with various consumer products companies.

During 2007, 2006, and 2005, Mattel incurred expenses of \$708.8 million (11.9% of net sales), \$651.0 million (11.5% of net sales), and \$629.1 million (12.1% of net sales), respectively, for advertising and promotion.

Sales

Mattel s products are sold throughout the world. Products within the Domestic segment are sold directly to retailers, including discount and free-standing toy stores, chain stores, department stores, other retail outlets and, to a limited extent, wholesalers by Mattel Girls & Boys Brands US and Fisher-Price Brands US. Mattel also operates several small retail outlets, generally near or at its corporate headquarters and distribution centers as a service to its employees and as an outlet for its products. American Girl Brands products are sold directly to consumers and its children s publications are also sold to certain retailers. Mattel has five retail stores, American Girl Place® in Chicago, Illinois, New York, New York, and Los Angeles, California, and American Girl Boutique and Bistro in Atlanta, Georgia, and Dallas, Texas, each of which features children s products from the American Girl Brands segment. The American Girl Boutique and Bistro opened in Atlanta, Georgia in August 2007 and Dallas, Texas in November 2007. American Girl Brands also has a retail outlet in Oshkosh, Wisconsin that serves as an outlet for excess product. Products within the International segment are sold directly to retailers and wholesalers in most European, Latin American, and Asian countries, and in Australia, Canada, and New Zealand, and through agents and distributors in those countries where Mattel has no direct presence. Mattel also has retail outlets in Latin America and Europe as an outlet for its products. Additionally, Mattel sells certain of its products online through its website.

During 2007, Mattel s three largest customers (Wal-Mart at $1.1 billion, Toys R Us at $0.7 billion, and Target at $0.6 billion) accounted for approximately 41% of worldwide consolidated net sales in the aggregate.

Within countries in the International segment, there is also a concentration of sales to certain large customers that do not operate in the US. The customers and the degree of concentration vary depending upon the region or nation. See Item 1A Risk Factors Factors That May Affect Future Results and Item 8 Financial Statements and Supplementary Data Note 11 to the Consolidated Financial Statements Segment Information.

Licenses and Distribution Agreements

Mattel has license agreements with third parties that permit Mattel to utilize the trademark, characters, or inventions of the licensor in products that Mattel sells. A number of these licenses relate to product lines that are significant to Mattel s business and operations.

Mattel has entered into agreements to license entertainment properties from, among others, Disney Enterprises, Inc. (including Disney characters such as Disney Princesses, CARS from Pixar, High School Musical, Winnie the Pooh, and all Disney films and television properties for use in Mattel s DVD board games, such as Scene It?, sold in North America), Viacom International, Inc. relating to its Nickelodeon properties (including Dora the Explorer, Go-Diego-Go!, and SpongeBob SquarePants), Warner Bros. Consumer Products (including Batman, Superman, Justice League, and Speed Racer), and Sesame Workshop (relating to its Sesame Street® properties including Elmo).

Royalty expense during 2007, 2006, and 2005 was $243.3 million, $261.2 million, and $225.6 million, respectively. See Product Design and Development and Item 8 Financial Statements and Supplementary Data Note 10 to the Consolidated Financial Statements Commitments and Contingencies.

Mattel also licenses a number of its trademarks, characters, and other property rights to others for use in connection with the sale of non-toy products that do not compete with Mattel s products. Mattel distributes some third-party finished products that are independently designed and manufactured.

Trademarks, Copyrights and Patents

Most of Mattel s products are sold under trademarks, trade names, and copyrights, and a number of those products incorporate patented devices or designs. Trade names and trademarks are significant assets of Mattel in that they provide product recognition and acceptance worldwide.

Mattel customarily seeks patent, trademark, or copyright protection covering its products, and it owns or has applications pending for US and foreign patents covering many of its products. A number of these trademarks and copyrights relate to product lines that are significant to Mattel s business and operations. Mattel believes its rights to these properties are adequately protected, but there can be no assurance that its rights can be successfully asserted in the future or will not be invalidated, circumvented, or challenged.

Commitments

In the normal course of business, Mattel enters into contractual arrangements for future purchases of goods and services to ensure availability and timely delivery, and to obtain and protect Mattel s right to create and market certain products. Certain of these commitments routinely

contain provisions for guaranteed or minimum expenditures during the term of the contracts. Current and future commitments for guaranteed payments reflect Mattel s focus on expanding its product lines through alliances with businesses in other industries.

As of December 31, 2007, Mattel had outstanding commitments for purchases of inventory, other assets and services totaling $321.8 million in fiscal year 2008. Licensing and similar agreements with terms extending through 2011 contain provisions for future guaranteed minimum payments aggregating approximately $123.0 million. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of

Operations Commitments and Item 8 Financial Statements and Supplementary Data Note 10 to the Consolidated Financial Statements Commitments and Contingencies.

Backlog

Mattel ships products in accordance with delivery schedules specified by its customers, which usually request delivery within three months. In the toy industry, orders are subject to cancellation or change at any time prior to shipment. In recent years, a trend toward just-in-time inventory practices in the toy industry has resulted in fewer advance orders and therefore less backlog of orders. Mattel believes that the amount of backlog orders at any given time may not accurately indicate future sales.

Financial Instruments

Currency exchange rate fluctuations may impact Mattel s results of operations and cash flows. Mattel seeks to mitigate its exposure to market risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts primarily to hedge its purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. In addition, Mattel manages its exposure to currency exchange rate fluctuations through the selection of currencies used for international borrowings. Mattel does not trade in financial instruments for speculative purposes.

For additional information regarding foreign currency contracts, see International Segment above, Item 7A Quantitative and Qualitative Disclosures About Market Risk and Item 8 Financial Statements and Supplementary Data Note 9 to the Consolidated Financial Statements Financial Instruments.

Seasonal Financing

Mattel maintains and periodically amends or replaces a $1.3 billion domestic unsecured committed revolving credit facility with a commercial bank group that is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement in effect expires on March 23, 2010 and interest is charged at various rates selected by Mattel, ranging from market commercial paper rates to the bank reference rate. The credit facility contains a variety of covenants, including financial covenants that require Mattel to maintain certain consolidated debt-to-capital and interest coverage ratios. Specifically, Mattel is required to meet these financial covenant ratios at the end of each fiscal quarter and fiscal year, using the formulae specified in the credit agreement to calculate the ratios. Mattel was in compliance with such covenants at the end of each fiscal quarter and fiscal year in 2007. As of December 31, 2007, Mattel s consolidated debt-to-capital ratio, as calculated per the terms of the credit agreement, was 0.35 to 1 (compared to a maximum allowed of 0.50 to 1) and Mattel s interest coverage ratio was 13.33 to 1 (compared to a minimum allowed of 3.50 to 1).

The domestic unsecured committed revolving credit facility is a material agreement and failure to comply with the financial covenant ratios may result in an event of default under the terms of the facility. If Mattel defaulted under the terms of the domestic unsecured committed revolving credit facility, its ability to meet its seasonal financing requirements could be adversely affected.

In December 2005, Mattel, Mattel Asia Pacific Sourcing Limited (MAPS), a wholly-owned subsidiary of Mattel, Bank of America, N.A., as a lender and administrative agent, and other financial institutions executed a credit agreement (the MAPS facility) which provided for (i) a term loan facility of $225.0 million consisting of a term loan advanced to MAPS in the original principal amount of $225.0 million, with $50.0 million of such amount to be repaid on each of December 15, 2006 and December 15, 2007, and the remaining aggregate principal amount of $125.0 million to be repaid on December 9, 2008, and (ii) a revolving loan facility consisting of revolving loans advanced to MAPS in the maximum aggregate principal amount at any time outstanding of

$100.0 million, with a maturity date of December 9, 2008. Interest was charged at various rates selected by Mattel based on Eurodollar rates or bank reference rates. On December 15, 2006, in addition to the required payment of $50.0 million, MAPS prepaid an incremental $125.0 million of the MAPS term loan facility. The remaining $50.0 million principal amount, consisting of $14.3 million due on December 15, 2007 and $35.7 million due on December 9, 2008, was prepaid on January 16, 2007. As a result of such pre-payments, the MAPS term loan facility terminated in accordance with its terms, but the MAPS revolving loan facility remained in effect. On March 26, 2007, Mattel terminated the MAPS revolving loan facility. Mattel did not incur any early termination penalties in connection with the termination of the MAPS revolving loan facility.

To finance seasonal working capital requirements of certain foreign subsidiaries, Mattel obtains individual short-term credit lines with a number of banks. As of December 31, 2007, foreign credit lines totaled approximately $200 million, a portion of which are used to support letters of credit. Mattel expects to extend the majority of these credit lines throughout 2008.

In June 2006, Mattel issued $100.0 million of unsecured floating rate senior notes (Floating Rate Senior Notes) due June 15, 2009 and $200.0 million of unsecured 6.125% senior notes (6.125% Senior Notes) due June 15, 2011 (collectively Senior Notes). Interest on the Floating Rate Senior Notes is based on the three-month US dollar London Interbank Offered Rate (LIBOR) plus 40 basis points with interest payable quarterly beginning September 15, 2006. Interest on the 6.125% Senior Notes is payable semi-annually beginning December 15, 2006. The 6.125% Senior Notes may be redeemed at any time at the option of Mattel at a redemption price equal to the greater of (i) the principal amount of the notes being redeemed plus accrued interest to the redemption date, or (ii) a make whole amount based on the yield of a comparable US Treasury security plus 20 basis points.

In June 2006, Mattel entered into two interest rate swap agreements on the $100.0 million Floating Rate Senior Notes, each with a notional amount of $50.0 million, for the purpose of hedging the variability of cash flows in the interest payments due to fluctuations of the LIBOR benchmark interest rate. These cash flow hedges are accounted for under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* whereby the hedges are reported in Mattel s consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in accumulated other comprehensive loss. Under the terms of the agreements, Mattel receives quarterly interest payments from the swap counterparties based on the three-month LIBOR plus 40 basis points and makes semi-annual interest payments to the swap counterparties based on a fixed rate of 5.87125%. The three-month LIBOR used to determine interest payments under the interest rate swap agreements resets every three months, matching the variable interest on the Floating Rate Senior Notes. The agreements expire in June 2009, which corresponds with the maturity of the Floating Rate Senior Notes.

In September 2007, a major credit rating agency reaffirmed Mattel s long-term credit rating at BBB-, but changed the outlook from positive to stable. In August 2007, another major credit rating agency maintained its long-term credit rating at BBB, but changed its outlook to positive. In May 2007, an additional credit rating agency maintained its long-term rating for Mattel at Baa2, but changed its long-term outlook from negative to stable. Management does not expect these actions to have a significant impact on Mattel s ability to obtain financing or to have a significant negative impact on Mattel s liquidity or results of operations.

Mattel believes its cash on hand at the beginning of 2008 and amounts available under its domestic unsecured committed revolving credit facility and its foreign credit lines will be adequate to meet its seasonal financing requirements in 2008. As of December 31, 2007, Mattel had available incremental borrowing resources totaling approximately $850 million under its domestic unsecured committed revolving credit facility and foreign credit lines.

Mattel has a $300.0 million domestic receivables sales facility that is a sub-facility of Mattel s domestic unsecured committed revolving credit facility. The outstanding amount of receivables sold under the domestic

receivables facility may not exceed $300.0 million at any given time, and the amount available to be borrowed under the credit facility is reduced to the extent of any such outstanding receivables sold. Under the domestic receivables facility, certain trade receivables are sold to a group of banks, which currently include, among others, Bank of America, N.A., as administrative agent, Citicorp USA, Inc. and Barclays Bank PLC, as co-syndication agents, and Societe Generale and BNP Paribas, as co-documentation agents. Pursuant to the domestic receivables facility, Mattel Sales Corp. and Fisher-Price, Inc. (which are wholly-owned subsidiaries of Mattel) can sell eligible trade receivables from Wal-Mart and Target to Mattel Factoring, Inc. (Mattel Factoring), a Delaware corporation and wholly-owned, consolidated subsidiary of Mattel. Mattel Factoring is a special purpose entity whose activities are limited to purchasing and selling receivables under this facility. Pursuant to the terms of the domestic receivables facility and simultaneous with each receivables purchase, Mattel Factoring sells those receivables to the bank group. Mattel records the transaction, reflecting cash proceeds and sale of accounts receivable in its consolidated balance sheet, at the time of the sale of the receivables to the bank group.

Sales of receivables pursuant to the domestic receivables sales facility occur periodically, generally quarterly. The receivables are sold by Mattel Sales Corp. and Fisher-Price, Inc. to Mattel Factoring for a purchase price equal to the nominal amount of the receivables sold. Mattel Factoring then sells such receivables to the bank group at a slight discount, and Mattel acts as a servicer for such receivables. Mattel has designated Mattel Sales Corp. and Fisher-Price, Inc. as sub-servicers, as permitted by the facility. Mattel s appointment as a servicer is subject to termination events that are customary for such transactions. The domestic receivables sales facility is also subject to conditions to funding, representations and warranties, undertakings and early termination events that are customary for transactions of this nature. Mattel retains a servicing interest in the receivables sold under this facility.

Until the Master Agreement was terminated on February 9, 2007, Mattel International Holdings B.V., a company incorporated in the Netherlands (the Depositor), Mattel France, a company incorporated in France (Mattel France), and Mattel GmbH, a company incorporated in Germany (Mattel Germany), each of which is a subsidiary of Mattel, and Societe Generale Bank Nederland N.V. (SGBN), were parties to a Master Agreement for the Transfer of Receivables that established a Euro 150 million European trade receivables facility (the European trade receivables facility), pursuant to which Mattel France and Mattel Germany sold trade receivables to SGBN. The European trade receivables facility was subject to conditions to funding, representations and warranties, undertakings and early termination events that were customary for transactions of this nature.

Sales of receivables pursuant to the European trade receivables facility occurred monthly, with the last such sale occurring on January 10, 2007. The receivables were sold by Mattel France and Mattel Germany directly to SGBN for a purchase price equal to the nominal amount of the receivables sold. As a result, no Mattel subsidiary was used as a special purpose entity in connection with these transactions. A portion of the purchase price was funded by SGBN and a portion by a deposit provided by the Depositor. The amount of the deposit was reset on each date on which new receivables were sold. Through the termination date, the deposit in 2007 was, on average, equal to approximately 54% of the aggregate notional amount of sold receivables outstanding during such period.

As with the domestic receivables facility, each sale of accounts receivable was recorded in Mattel s consolidated balance sheet at the time of such sale. Under the European trade receivables facility, the outstanding amount of receivables sold could not exceed Euro 60 million from February 1 through July 31 of each year and could not exceed Euro 150 million at all other times.

Each of Mattel France and Mattel Germany was appointed to service the receivables sold by it to SGBN. No servicing fees were paid by SGBN for such services. The appointment of each of Mattel France and Mattel Germany to act as servicer was subject to termination events that were customary for transactions of this nature.

Mattel France and Mattel Germany were obligated to pay certain fees to the Depositor in consideration of the Depositor providing the deposit to SGBN. Through the termination date, fees paid in 2007 by Mattel France and Mattel Germany to the Depositor were, on average, approximately 0.1% of the aggregate notional amount of sold receivables outstanding during such period.

In November 2006, the commitment termination date for the European trade receivables facility was extended until February 28, 2007. However, effective on February 9, 2007, the Depositor, Mattel France and Mattel Germany terminated the European trade receivable facility with SGBN because the Company determined the facility was no longer necessary based on projected international cash flows and seasonal financing needs.

Government Regulations and Environmental Quality

Mattel s toy products sold in the US are subject to the provisions of the Consumer Product Safety Act and the Federal Hazardous Substances Act, and may also be subject to the requirements of the Flammable Fabrics Act or the Food, Drug, and Cosmetics Act, and the regulations promulgated pursuant to such statutes. The Consumer Product Safety Act and the Federal Hazardous Substances Act enable the Consumer Product Safety Commission (CPSC) to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, as well as articles that contain excessive amounts of a banned hazardous substance. The CPSC may also require the recall, repurchase, replacement, or repair of articles that are banned. Similar laws exist in some states and cities, and in many international markets.

Mattel maintains a quality control program to ensure compliance with various US federal, state and applicable foreign product safety requirements. Notwithstanding the foregoing, there can be no assurance that all of Mattel s products are or will be free from defects or are hazard-free. A product recall could have a material adverse effect on Mattel s results of operations and financial condition, depending on the product affected by the recall and the extent of the recall efforts required. A product recall could also negatively affect Mattel s reputation and the sales of other Mattel products. See Item 1A Risk Factors Factors That May Affect Future Results and Item 8 Financial Statements and Supplementary Data Note 4 to the Consolidated Financial Statements Product Recalls.

Mattel s advertising is subject to the Federal Trade Commission Act, The Children s Television Act of 1990, the rules and regulations promulgated by the Federal Trade Commission and the Federal Communications Commission, as well as laws of certain countries that regulate advertising and advertising to children. In addition, Mattel s websites that are directed towards children are subject to The Children s Online Privacy Protection Act of 1998. Mattel is subject to various other federal, state and local laws and regulations applicable to its business. Mattel believes that it is in substantial compliance with these laws and regulations.

Mattel s operations are from time to time the subject of investigations, conferences, discussions, and negotiations with various federal, state and local environmental agencies with respect to the discharge or cleanup of hazardous waste and compliance by those operations with environmental laws and regulations. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental and Item 8 Financial Statements and Supplementary Data Note 10 to the Consolidated Financial Statements Commitments and Contingencies.

Employees

The total number of persons employed by Mattel and its subsidiaries at any one time varies because of the seasonal nature of its manufacturing operations. At December 31, 2007, Mattel s total number of employees was approximately 31,000.

Executive Officers of the Registrant

The current executive officers of Mattel, all of whom are appointed annually by and serve at the pleasure of the Board of Directors, are as follows:

Name	Age	Position	Executive Officer Since
Robert A. Eckert	53	Chairman of the Board and Chief Executive Officer	2000
Ellen L. Brothers	52	Executive Vice President of Mattel and President, American Girl	2003
Thomas A. Debrowski	57	Executive Vice President, Worldwide Operations	2000
Kevin M. Farr	50	Chief Financial Officer	1996
Neil B. Friedman	60	President, Mattel Brands	1999
Alan Kaye	54	Senior Vice President, Human Resources	2000
Geoff Massingberd	50	Senior Vice President, Corporate Responsibility	2007
Robert Normile	48	Senior Vice President, General Counsel and Secretary	1999
Michael A. Salop	43	Senior Vice President, Investor Relations and Treasurer	2005
Bryan Stockton	54	President, International	2000
H. Scott Topham	47	Senior Vice President and Corporate Controller	2004

Mr. Eckert has been Chairman of the Board and Chief Executive Officer since May 2000. He was formerly President and Chief Executive Officer of Kraft Foods, Inc., the largest packaged food company in North America, from October 1997 until May 2000. From 1995 to 1997, Mr. Eckert was Group Vice President of Kraft Foods, Inc. From 1993 to 1995, Mr. Eckert was President of the Oscar Mayer foods division of Kraft Foods, Inc. Mr. Eckert worked for Kraft Foods, Inc. for 23 years prior to joining Mattel.

Ms. Brothers has been Executive Vice President of Mattel and President, American Girl since July 2000. From November 1998 to July 2000, she was Senior Vice President of Operations, Pleasant Company (which merged with and into Mattel on December 31, 2003, followed immediately on January 1, 2004, by an asset transfer to Mattel s subsidiary American Girl). From January 1997 to November 1998, she was Vice President of the Catalogue Division, Pleasant Company. She joined Pleasant Company in 1995, prior to its acquisition by Mattel in July 1998, as Vice President of Catalogue Marketing.

Mr. Debrowski has been Executive Vice President, Worldwide Operations, since November 2000. From February 1992 until November 2000, he was Senior Vice President-Operations and a director of The Pillsbury Company. From September 1991 until February 1992, he was Vice President of Operations for the Baked Goods Division of The Pillsbury Company. Prior to that, he served as Vice President and Director of Grocery Operations for Kraft U.S.A.

Mr. Farr has been Chief Financial Officer since February 2000. From September 1996 to February 2000, he was Senior Vice President and Corporate Controller. From June 1993 to September 1996, he served as Vice President, Tax. Prior to that, he served as Senior Director, Tax from August 1992 to June 1993.

Mr. Friedman has been President, Mattel Brands (which includes Mattel Girls & Boys Brands US and Fisher-Price Brands US) since October 2005. From March 1999 to October 2005, he was President, Fisher-Price Brands. From August 1995 to March 1999, he was President, Tyco Preschool. For more than five years prior to

that time, he was President of MCA/Universal Merchandising, Senior Vice President-Sales, Marketing and Design of Just Toys, Vice President and General Manager of Baby Care for Gerber Products, Executive Vice President and Chief Operating Officer of Lionel Leisure, Inc., and President of Aviva/Hasbro.

Mr. Kaye has been Senior Vice President, Human Resources since July 1997. From June 1996 to June 1997 he was President, Texas Division of Kaufman and Broad Homes, a home building company. From June 1991 to June 1996, he served as Senior Vice President, Human Resources for Kaufman and Broad Homes. Prior to that, he worked for two years with the Hay Group, a compensation consulting firm and for 12 years with IBM in various human resources positions.

Mr. Massingberd has been Senior Vice President, Corporate Responsibility since September 2007. From February 1998 to August 2007, he served as Senior Vice President and General Manager of Mattel s International divisions in Canada, Australia, New Zealand, Asia, and Latin America and from August 1997 to February 1998, he was Vice President, Sales for Mattel Canada. Prior to joining Mattel, Mr. Massingberd spent 18 years with Nestle S.A. and served in various roles, including Vice President, Sales and head of Nestle Canada s Confectionery division.

Mr. Normile has been Senior Vice President, General Counsel and Secretary since March 1999. He served as Vice President, Associate General Counsel and Secretary from August 1994 to March 1999. From June 1992 to August 1994, he served as Assistant General Counsel. Prior to that, he was associated with the law firms of Latham & Watkins LLP and Sullivan & Cromwell LLP.

Mr. Salop has been Senior Vice President, Investor Relations and Treasurer since September 2005. He served as Senior Vice President, Strategic Opportunities from May 2004 through September 2005 and Senior Vice President, Corporate Strategic Planning from February 2003 through May 2004. From July 2000 to February 2003 he was Senior Vice President, Finance Europe and from August 1998 through July 2000 he was Vice President, Finance American Girl. Prior to that, he served in various financial roles after joining Mattel in 1990.

Mr. Stockton has been President, International since November 2007. He served as Executive Vice President, International from February 2003 to November 2007. He served as Executive Vice President, Business Planning and Development from November 2000 until February 2003. From April 1998 until November 2000, he was President and Chief Executive Officer of Basic Vegetable Products, the largest manufacturer of vegetable ingredients in the world. For more than 20 years prior to that, he was employed by Kraft Foods, Inc., the largest packaged food company in North America, and was President of Kraft North American Food Service from August 1996 to March 1998.

Mr. Topham has been Senior Vice President and Corporate Controller since September 2005. He served as Senior Vice President and Treasurer from March 2005 to August 2005 and as Vice President and Treasurer from March 2004 to March 2005. Prior to that, he served as Vice President and Assistant Controller from May 2001 to March 2004. From August 2000 to May 2001, he served as Vice President and Treasurer of Premier Practice Management, Inc. From June 1999 to August 2000, he served as Division Vice President of Dataworks, Inc., a specialized publishing company. Prior to that, he spent eight years with Total Petroleum (North America) Ltd., most recently as Vice President of Human Resources.

Available Information

Mattel files its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) with the SEC. The public may read and copy any materials that Mattel files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by

calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains reports, proxy and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

Mattel s Internet website address is http://www.mattel.com. Mattel makes available on its Internet website, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC.

Item 1A. Risk Factors.

Factors That May Affect Future Results

(Cautionary Statement Under the Private Securities Litigation Reform Act of 1995)

Certain written and oral statements made or incorporated by reference from time to time by Mattel or its representatives in this Annual Report on Form 10-K, other filings or reports filed with the SEC, press releases, conferences, or otherwise, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and may include, but are not limited to, statements about: sales and inventory levels; brand and customer management programs; increased competition; initiatives to promote revenue growth; globalization initiatives; restructuring and financial realignment plans; special charges and other non-recurring charges; initiatives aimed at anticipated cost savings; new entertainment properties; initiatives to invigorate the Barbie® brand, enhance innovation, improve the execution of the core business, leverage scale, extend brands, catch new trends, create new brands, and enter new categories, develop people, improve productivity, simplify processes and maintain customer service levels; quality control and safety testing; impact of product recalls; reserves for product recalls and other incremental recall-related costs; supply chain operations; import and export licenses; integration of acquired companies and assets; operating efficiencies; capital and investment framework (including statements about free cash flow, seasonal working capital, debt-to-total capital ratios, capital expenditures, strategic acquisitions, dividends and share repurchases); tax provisions; cost pressures and increases; advertising and promotion spending; profitability; price increases, retail store openings and the impact of recent organizational changes. Mattel is including this Cautionary Statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any such forward-looking statements. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements. Forward-looking statements can be identified by the use of terminology such as believe, anticipate, expect, estimate, may, will, should, project, continue, plans, aims, intends, likely, or other similar words or phrases. Excep the matters discussed in this Annual Report on Form 10-K and other statements or filings made by Mattel from time-to-time may be forward-looking statements. Management cautions you that forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. In addition to the important factors detailed herein and from time-to-time in other reports filed by Mattel with the SEC, including Forms 8-K, 10-Q and 10-K, the following important factors could cause actual results to differ materially from past results or those suggested by any forward-looking statements.

If Mattel does not successfully satisfy consumer preferences, enhance existing products, develop and introduce new products and achieve consumer acceptance of those products, Mattel s results of operations may be adversely affected.

Mattel s business and operating results depend largely upon the appeal of its toy products. Consumer preferences, particularly among end users of Mattel s products children are continuously changing. Significant, sudden shifts in demand are caused by hit toys and trends, which are often unpredictable. Mattel offers a diverse range of products for children of all ages and families that includes, among others, toys for infants and preschoolers, girls toys, boys toys, youth electronics, hand-held and other games, puzzles, educational toys, media-driven products and fashion-related toys. Mattel competes domestically and internationally with a wide

range of large and small manufacturers, marketers and sellers of toys, video games, consumer electronics and other play products, as well as retailers, which means that Mattel s market position is always at risk. Mattel s ability to maintain its current product sales, and increase its product sales or establish product sales with new, innovative toys, will depend on Mattel s ability to satisfy play preferences, enhance existing products, develop and introduce new products, and achieve market acceptance of these products. Competition is intensifying due to recent trends towards shorter life cycles for individual toy products, the phenomenon of children outgrowing toys at younger ages and an increasing use of more sophisticated technology in toys. If Mattel does not successfully meet the challenges outlined above in a timely and cost-effective manner, demand for its products could decrease and Mattel s revenues, profitability and results of operations may be adversely affected.

Mattel s business is susceptible to changes in popular culture, media, fashion, and technology. Misperceptions of trends in popular culture, media and movies, fashion, or technology can negatively affect Mattel s sales.

Successful movies and characters in children s literature affect play preferences, and many toys depend on media-based intellectual property licenses. Media-based licenses can cause a line of toys to gain immediate success among children, parents, or families. Trends in media, movies, and children s characters change swiftly and contribute to the transience and uncertainty of play preferences. In addition, certain developments in the entertainment industry, including labor strikes, could cause delay or interruption in the release of new movies and television programs and could adversely affect the sales of Mattel s toys based on such movies and television programs. Mattel responds to such trends and developments by modifying, refreshing, extending, and expanding its product offerings on an annual basis. If Mattel does not accurately anticipate trends in popular culture, movies, media, fashion, or technology, its products may not be accepted by children, parents, or families and Mattel s revenues, profitability and results of operations may be adversely affected.

Mattel s business is seasonal and therefore its operating results will depend, in large part, on sales during the relatively brief traditional holiday season. Improved inventory management by retailers resulting in shorter lead times for production and possible shipping disruptions during peak demand times may affect Mattel s ability to deliver its products in time to meet retailer demands.

Mattel s business is subject to risks associated with the underproduction of popular toys and the overproduction of toys that do not match consumer demand. Sales of toy products at retail are seasonal, with a majority of retail sales occurring during the period from September through December. As a result, Mattel s operating results will depend, in large part, on sales during the relatively brief traditional holiday season. Retailers are attempting to manage their inventories more tightly, requiring Mattel to ship products closer to the time the retailers expect to sell the products to consumers. This in turn results in shorter lead times for production. Management believes that the increase in last minute shopping during the holiday season and the popularity of gift cards (which often result in purchases after the holiday season) may negatively impact customer re-orders during the holiday season. Shipping disruptions limiting the availability of ships or containers in Asia during peak demand times may affect Mattel s ability to deliver its products in time to meet retailer demand. These factors may decrease sales or increase the risk that Mattel may not be able to meet demand for certain products at peak demand times, or that Mattel s own inventory levels may be adversely impacted by the need to pre-build products before orders are placed.

Uncertainty and adverse changes in the general economic conditions of markets in which Mattel participates may negatively affect Mattel s business.

Current and future conditions in the economy have an inherent degree of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors and regions of the economy, including the many different markets in which Mattel participates. Because all components of Mattel s budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products, the

prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of soft global or regional economic conditions, rising oil prices, wavering consumer confidence, unemployment, declines in stock markets or other factors affecting economic conditions generally. These changes may negatively affect the sales of Mattel s products, increase exposure to losses from bad debts, increase the cost and decrease the availability of financing, increase the risk of loss on investments, or increase costs associated with manufacturing and distributing products.

The concentration of Mattel s business with a small retail customer base that makes no binding long-term commitments means that economic difficulties or changes in the purchasing policies of its major customers could have a significant impact on Mattel s business and operating results.

A small number of customers account for a large share of Mattel s net sales. In 2007, Mattel s three largest customers, Wal-Mart, Toys R Us and Target, in the aggregate, accounted for approximately 41% of net sales, and its ten largest customers, in the aggregate, accounted for approximately 50% of net sales. The concentration of Mattel s business with a relatively small number of customers may expose Mattel to a material adverse effect if one or more of Mattel s large customers were to significantly reduce purchases for any reason, favor competitors or new entrants, or increase their direct competition with Mattel by expanding their private-label business. Customers make no binding long-term commitments to Mattel regarding purchase volumes and make all purchases by delivering one-time purchase orders. Any customer could reduce its overall purchases of Mattel s products, reduce the number and variety of Mattel s products that it carries and the shelf space allotted for Mattel s products, or otherwise seek to materially change the terms of the business relationship at any time. Any such change could significantly harm Mattel s business and operating results.

The production and sale of private-label toys by Mattel s retail customers may result in lower purchases of Mattel-branded products by those retail customers.

In recent years, consumer goods companies generally, including those in the toy business, have experienced the phenomenon of retail customers developing their own private-label products that directly compete with the products of traditional manufacturers. Some retail chains that are customers of Mattel sell private-label toys designed, manufactured and branded by the retailers themselves. These toys may be sold at prices lower than comparable toys sold by Mattel, and may result in lower purchases of Mattel-branded products by these retailers. In some cases, retailers who sell these private-label toys are larger than Mattel and may have substantially more resources than Mattel.

Liquidity problems or bankruptcy of Mattel s key customers could increase Mattel s exposure to losses from bad debts and could have a material adverse effect on Mattel s business, financial condition and results of operations.

Many of Mattel s key customers are mass-market retailers. The mass-market retail channel in the US has experienced significant shifts in market share among competitors in recent years, causing some large retailers to experience liquidity problems. From 2001 through early 2004, four large customers of Mattel filed for bankruptcy. In addition, Mattel s sales to customers are typically made on credit without collateral. There is a risk that customers will not pay, or that payment may be delayed, because of bankruptcy or other factors beyond the control of Mattel, which could increase Mattel s exposure to losses from bad debts. In addition, if these or other customers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores operated, it could have a material adverse effect on Mattel s business, financial condition and results of operations.

A reduction or interruption in the delivery of raw materials, parts and components from its suppliers or a significant increase in the price of supplies could negatively impact the gross profit margins realized by Mattel on the sale of its products or result in lower sales.

Mattel s ability to meet customer demand depends, in part, on its ability to obtain timely and adequate delivery of materials, parts and components from its suppliers and internal manufacturing capacity. Mattel has experienced shortages in the past, including raw materials and components. Although Mattel works closely with suppliers to avoid these types of shortages, there can be no assurance that Mattel will not encounter these problems in the future. A reduction or interruption in supplies or a significant increase in the price of one or more supplies, such as fuel and resin (which is an oil-based product) expenses, could have a material adverse effect on Mattel s business. Cost increases, whether resulting from shortages of materials or otherwise, including but not limited to rising costs of materials, transportation, services and labor (including but not limited to wages, expenses related to employee health plans and insurance), could impact the profit margins realized by Mattel on the sale of its products. Because of market conditions, timing of pricing decisions and other factors, there can be no assurance that Mattel will be able to offset any of these increased costs by adjusting the prices of its products. Increases in prices of Mattel s products could result in lower sales.

Unfavorable resolution of pending and future litigation matters, and disputes, including those arising from recalls, withdrawal, or replacement of Mattel products, could have a material adverse effect on Mattel s financial condition.

Mattel is involved in a number of litigation matters, including those arising from recalls, withdrawals, or replacements of Mattel products. An unfavorable resolution of pending litigation could have a material adverse effect on Mattel s financial condition and its operations. Regardless of its outcome, litigation may result in substantial costs and expenses and significantly divert the attention of management. There can be no assurance that Mattel will be able to prevail in, or achieve a favorable settlement of, pending litigation. In addition to the pending litigation, future litigation, government proceedings, labor disputes, or environmental matters could lead to increased costs or interruption of Mattel s normal business operations.

Product recalls, post-manufacture repairs of Mattel products, product liability claims, absence or cost of insurance, and associated costs could harm Mattel s reputation, divert resources, reduce sales and increase costs and could have a material adverse effect on Mattel s financial condition.

Mattel is subject to regulation by the U.S. Consumer Product Safety Commission and regulatory authorities in the states of the United States and in other countries. Its products could be subject to recalls and other actions by these authorities. Mattel has experienced, and may in the future experience, issues in products that result in recalls, withdrawals, or post-manufacture repairs or replacements of products. Enhanced testing implemented by Mattel, as well as increased scrutiny by retailers and other parties, may reveal issues in Mattel products that may lead to regulatory actions by these authorities. Individuals have asserted claims, and may in the future assert claims, that they have sustained injuries from Mattel s products, and Mattel is and may be subject to lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside of the scope of, Mattel s insurance coverage. Moreover, Mattel may be unable to obtain adequate liability insurance in the future. Any of the issues mentioned above could result in damage to Mattel s reputation, diversion of development and management resources, reduced sales and increased costs, any of which could harm Mattel s business.

Recalls of Mattel products could materially and adversely affect Mattel by increasing costs in excess of current estimates.

Mattel has recorded, and in the future may record, charges and incremental costs relating to recalls, withdrawals, or replacements of Mattel products, based on its most recent estimates of retailer inventory returns, consumer product replacement costs, associated legal and professional fees, and costs associated with advertising and administration of product recalls. Because these current and expected future charges are based on estimates,

they may increase as a result of numerous factors, many of which are beyond Mattel s control, including the amount of products that may be returned by consumers and retailers, the number and type of legal, regulatory, or legislative proceedings relating to product recalls, withdrawals, or replacements or product safety in the United States and elsewhere that may involve Mattel; and regulatory or judicial orders or decrees in the United States and elsewhere that may require Mattel to take certain actions in connection with product recalls.

Recalls of Mattel products could result in adverse governmental actions, including new legislation and regulations, that may materially and adversely affect Mattel.

As a result of product recalls, withdrawals, or replacements Mattel has been the subject of governmental actions, inquiries, and proceedings in several countries. Mattel has incurred expenses to respond and has had adverse effects on its business, including temporary suspension of its ability to import products into various countries and to export certain products from China. Product recalls, withdrawals, or replacements have resulted in increased governmental scrutiny of Mattel products. There can be no assurance that Mattel will not be subjected to future governmental actions and scrutiny that may lead to increased costs or to interruptions or disruptions of its normal business operations. In addition, regulatory agencies and legislatures in various countries, including the United States, have undertaken reviews of product safety, and various proposals for additional, more stringent laws and regulations are under consideration. Current or future laws or regulations may become effective in various jurisdictions in which Mattel currently operates and may increase Mattel s costs and disrupt its business operations.

Mattel s revised safety procedures may materially and adversely affect its relationship with vendors and make it more difficult for Mattel to purchase and deliver products on a timely basis to meet market demands. Future conditions may require Mattel to adopt further changes that may increase its costs and further affect its relationship with vendors.

Mattel s revised operating procedures and requirements for vendors, including enhanced testing requirements and standards, impose additional costs on both Mattel and the vendors from which it purchases products. These changes also delay delivery of products. Mattel s relationship with its existing vendors may be adversely affected as a result of these changes, making Mattel more dependent on a smaller number of vendors. Some vendors may choose not to continue to do business with Mattel or not to accommodate Mattel s needs to the extent that they have done in the past. Because of the seasonal nature of Mattel s business and the demands of its customers for deliveries with short lead times, Mattel depends upon the cooperation of its vendors to meet market demand for its products in a timely manner. There can be no assurance that existing and future events will not require Mattel to impose additional requirements on its vendors that may adversely affect its relationship with those vendors and Mattel s ability to meet market demand in a timely manner.

Product recalls may harm Mattel s reputation and acceptance of Mattel s products by consumers, licensors and Mattel s retailer customers, which may materially and adversely affect sales and profits. Recalls may also increase competitive pressures from other toy manufacturers.

Product recalls, withdrawals, or replacements have resulted in coverage critical of Mattel in the press and media. While Mattel believes that it has acted responsibly and in the interests of safety, product recalls, withdrawals, or replacements may harm Mattel s reputation and the acceptance of its products by consumers, licensors and retailers. Mattel s ability to enter into licensing agreements for products on competitive terms may be adversely affected, if licensors believe that products sold by Mattel will be less favorably received in the market. Mattel s retailer customers may be less willing to purchase Mattel products or to provide marketing support for those products, such as shelf space, promotions, and advertising. Reduced acceptance of Mattel s products would adversely affect its sales and profits. Product recalls, withdrawals, or replacements may also increase the amount of competition that Mattel confronts from other manufacturers. Some competitors may attempt to differentiate themselves from Mattel by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded recalls, withdrawals, or replacements of Mattel

products. To the extent that competitive manufacturers choose not to implement enhanced safety and testing protocols comparable to those that Mattel has adopted, those competitors could enjoy a cost advantage that will enable them to offer products at lower prices than those charged by Mattel.

Failure by Mattel to protect its proprietary intellectual property and information could have a material adverse effect on Mattel s business, financial condition and results of operations.

The value of Mattel s business depends to a large degree on its ability to protect its intellectual property and information, including its trademarks, trade names, copyrights, patents and trade secrets in the US and around the world, as well as its customer, employee and consumer data. Any failure by Mattel to protect its proprietary intellectual property and information, including any successful challenge to Mattel s ownership of its intellectual property or material infringements of its intellectual property, could have a material adverse effect on Mattel s business, financial condition and results of operations.

Political developments, including trade relations, and the threat or occurrence of war or terrorist activities could materially impact Mattel, its personnel and facilities, its customers and suppliers, retail and financial markets, and general economic conditions.

Mattel s business is worldwide in scope, including operations in 43 countries and territories. The deterioration of the political situation in a country in which Mattel has significant sales or operations, or the breakdown of trade relations between the US and a foreign country in which Mattel has significant manufacturing facilities or other operations, could adversely affect Mattel s business, financial condition and results of operations. For example, a change in trade status for China could result in a substantial increase in the import duty of toys manufactured in China and imported into the US. In addition, the occurrence of war or hostilities between countries or threat of terrorist activities, and the responses to and results of these activities, could materially impact Mattel, its personnel and facilities, its customers and suppliers, retail and financial markets, and general economic conditions.

Disruptions in Mattel s manufacturing operations due to political instability, civil unrest, SARS, avian flu or other diseases could negatively impact Mattel s business, financial position and results of operations.

Mattel owns, operates and manages manufacturing facilities and utilizes third-party manufacturers throughout Asia, primarily in China, Indonesia, Malaysia and Thailand. The risk of political instability and civil unrest exists in certain of these countries, which could temporarily or permanently damage Mattel s manufacturing operations located there. In the past, outbreaks of SARS have been significantly concentrated in Asia, particularly in Hong Kong, and in the Guangdong province of China, where many of Mattel s manufacturing facilities and third-party manufacturers are located. The design, development and manufacture of Mattel s products could suffer if a significant number of Mattel s employees or the employees of its third-party manufacturers or their suppliers contract SARS, avian flu or other communicable diseases, or otherwise are unable to fulfill their responsibilities. Mattel has developed contingency plans designed to help mitigate the impact of disruptions in its manufacturing operations. Mattel s business, financial position and results of operations could be negatively impacted by a significant disruption to its manufacturing operations or suppliers.

Earthquakes or other catastrophic events out of our control may damage Mattel s facilities or those of its contractors and harm Mattel s results of operations.

Mattel has significant operations, including its corporate headquarters, near major earthquake faults in Southern California. Southern California has experienced earthquakes, wildfires and other natural disasters in recent years. A catastrophic event where Mattel has important operations,

such as an earthquake, tsunami, flood, typhoon, fire or other natural or manmade disaster, could disrupt Mattel s operations or those of its contractors and impair production or distribution of its products, damage inventory, interrupt critical functions or otherwise affect its business negatively, harming Mattel s results of operations.

Significant changes in currency exchange rates could have a material adverse effect on Mattel s business and results of operations.

Mattel s net investment in its foreign subsidiaries and its results of operations and cash flows are subject to changes in currency exchange rates and regulations. Mattel seeks to mitigate the exposure of its results of operations to fluctuations in currency exchange rates by partially hedging this exposure using foreign currency forward exchange contracts. These contracts are primarily used to hedge Mattel s purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies. Government action may restrict Mattel s ability to transfer capital across borders and may also impact the fluctuation of currencies in the countries where Mattel conducts business or has invested capital. Significant changes in currency exchange rates, reductions in Mattel s ability to transfer its capital across borders, and changes in government-fixed currency exchange rates, including the Chinese yuan and Venezuela bolivar, could have a material adverse effect on Mattel s business and results of operations.

Increases in interest rates, reduction of Mattel s credit ratings or the inability of Mattel to meet the debt covenant coverage requirements in its credit facilities could negatively impact Mattel s ability to conduct its operations.

Increases in interest rates, both domestically and internationally, could negatively affect Mattel s cost of financing both its operations and investments. Any reduction in Mattel s credit ratings could increase the cost of obtaining financing. Additionally, Mattel s ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-capital and interest coverage ratios. Mattel s ability to conduct its operations could be negatively impacted should these or other adverse conditions affect its primary sources of liquidity.

Mattel s failure to successfully market or advertise its products could have a material adverse effect on Mattel s business, financial condition and results of operations.

Mattel s products are marketed worldwide through a diverse spectrum of advertising and promotional programs. Mattel s ability to sell products is dependent in part upon the success of these programs. If Mattel does not successfully market its products or if media or other advertising or promotional costs increase, these factors could have a material adverse effect on Mattel s business, financial condition and results of operations.

Failure to successfully implement new initiatives could have a material adverse effect on Mattel s business, financial condition and results of operations.

Mattel has announced, and in the future may announce, initiatives to improve the execution of its core business, globalize and extend Mattel s brands, catch new trends, create new brands, and offer new innovative products, enhance product safety, develop people, improve productivity, simplify processes, maintain customer service levels, as well as new initiatives designed to drive sales growth, manage costs, capitalize on Mattel s scale advantage and improve its supply chain. These initiatives involve investment of capital and complex decision-making as well as extensive and intensive execution, and the success of these initiatives is not assured. Failure to successfully implement any of these initiatives could have a material adverse effect on Mattel s business, financial condition and results of operations.

Mattel depends on key personnel and may not be able to hire, retain and integrate sufficient qualified personnel to maintain and expand its business.

Mattel s future success depends partly on the continued contribution of key executives, designers, technical, sales, marketing, manufacturing and administrative personnel. The loss of services of any of Mattel s key personnel could harm Mattel s business. Recruiting and retaining skilled personnel is costly and highly competitive. If Mattel fails to retain, hire, train and integrate qualified employees and contractors, Mattel may not be able to maintain and expand its business.

Mattel is subject to various laws and government regulations, violation of which could subject it to sanctions. In addition, changes in such laws or regulations may lead to increased costs, changes in Mattel s effective tax rate, or the interruption of normal business operations that would negatively impact Mattel s financial condition and results of operations.

Mattel operates in a highly regulated environment in the US and international markets. US federal, state and local governmental entities and foreign governments regulate many aspects of Mattel s business, including its products and the importation and exportation of its products. These regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws and revised tax law interpretations), trade restrictions, regulations regarding financial matters, environmental regulations, advertising directed toward children, safety and other administrative and regulatory restrictions. While Mattel takes all the steps it believes are necessary to comply with these laws and regulations, there can be no assurance that Mattel will be in compliance in the future. Failure to comply could result in monetary liabilities and other sanctions which could have a negative impact on Mattel s business, financial condition and results of operations.

In addition, changes in laws or regulations may lead to increased costs, changes in Mattel s effective tax rate, or the interruption of normal business operations that would negatively impact its financial condition and results of operations.

Mattel may engage in acquisitions, mergers or dispositions, which may affect the profit, revenues, profit margins, debt-to-capital ratio, capital expenditures or other aspects of Mattel s business. In addition, Mattel has certain anti-takeover provisions in its by-laws that may make it more difficult for a third party to acquire Mattel without its consent, which may adversely affect Mattel s stock price.

Mattel may engage in acquisitions, mergers or dispositions, which may affect the profit, revenues, profit margins, debt-to-capital ratio, capital expenditures, or other aspects of Mattel s business. There can be no assurance that Mattel will be able to identify suitable acquisition targets or merger partners or that, if identified, it will be able to acquire these targets on acceptable terms or agree to terms with merger partners. There can also be no assurance that Mattel will be successful in integrating any acquired company into its overall operations, or that any such acquired company will operate profitably or will not otherwise adversely impact Mattel s results of operations. Further, Mattel cannot be certain that key talented individuals at these acquired companies will continue to work for Mattel after the acquisition or that they will continue to develop popular and profitable products or services. In addition, Mattel has certain anti-takeover provisions in its bylaws that may make it more difficult for a third party to acquire Mattel without its consent, which may adversely affect Mattel s stock price.

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If any of the risks and uncertainties described in the cautionary factors listed above actually occurs, Mattel s business, financial condition and results of operations could be materially and adversely affected. The factors listed above are not exhaustive. Other sections of this Annual Report on Form 10-K include additional factors that could materially and adversely impact Mattel s business, financial condition and results of operations. Moreover, Mattel operates in a very competitive and rapidly changing environment. New factors emerge from time to time and it is not possible for management to predict the impact of all of these factors on Mattel s business, financial condition or results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results. Any or all of the forward-looking statements contained in this Annual Report on Form 10-K and any other public statement made by Mattel or its representatives may turn out to be wrong. Mattel expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new developments or otherwise.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Mattel owns its corporate headquarters in El Segundo, California, consisting of approximately 335,000 square feet, and an adjacent office building consisting of approximately 55,000 square feet. Mattel also leases buildings in El Segundo consisting of approximately 327,000 square feet. All segments use these facilities. Mattel s Fisher-Price® subsidiary owns its headquarters facilities in East Aurora, New York, consisting of approximately 535,000 square feet, which is used by the Fisher-Price Brands US segment and for corporate support functions. American Girl Brands owns its headquarters facilities in Middleton, Wisconsin, consisting of approximately 180,000 square feet, a warehouse in Middleton, consisting of approximately 215,000 square feet, and distribution facilities in Middleton, DeForest and Wilmot, Wisconsin, consisting of a total of approximately 948,000 square feet, all of which are used by the American Girl Brands segment.

Mattel maintains leased sales offices in California, Illinois, Minnesota, New York, and Arkansas, and leased warehouse and distribution facilities in California, New Jersey, and Texas, all of which are used by the Domestic segment. Mattel has leased retail and related office space in Chicago, Illinois, New York, New York, and Los Angeles, California for its American Girl Place® stores, Dallas, Texas and Atlanta, Georgia for its American Girl Boutique and Bistro and leased retail space in Oshkosh, Wisconsin, which are used by the American Girl Brands segment, and Pomona, California, which is used by Mattel Brands. Mattel also has leased office space in Florida, which is used by the International segment, and Massachusetts and Texas, which are used by Radica Games Limited (Radica). Mattel leases a computer facility in Phoenix, Arizona used by all segments. Internationally, Mattel has offices and/or warehouse space in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Colombia, Costa Rica, Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Italy, Japan, Macau, Malaysia, Mexico, The Netherlands, New Zealand, Norway, Peru, Poland, Portugal, Puerto Rico, South Korea, Spain, Switzerland, Taiwan, Thailand, Turkey, the United Kingdom, and Venezuela which are leased (with the exception of office space in Chile, certain warehouse space in France, and office and warehouse space in Hong Kong, that is owned by Mattel) and used by the International segment. Mattel s principal manufacturing facilities are located in China, Indonesia, Thailand, Malaysia, and Mexico. See Item 1 Business Manufacturing and Materials.

For leases that are scheduled to expire during the next twelve months, Mattel may negotiate new lease agreements, renew existing lease agreements or utilize alternate facilities. See Item 8 Financial Statements and Supplementary Data Note 10 to the Consolidated Financial Statements Commitments and Contingencies. Mattel believes that its owned and leased facilities, in general, are suitable and adequate for its present and currently foreseeable needs.

Item 3. Legal Proceedings.

See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Litigation and Item 8 Financial Statements and Supplementary Data Note 10 to the Consolidated Financial Statements Commitments and Contingencies.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

For information regarding the markets in which Mattel s common stock, par value $1.00 per share, is traded, see the cover page hereof. For information regarding the high and low closing prices of Mattel s common stock for the last two calendar years, see Item 8 Financial Statements and Supplementary Data Note 13 to the Consolidated Financial Statements Quarterly Financial Information.

Holders of Record

As of February 22, 2008, Mattel had approximately 38,000 holders of record of its common stock.

Dividends

In 2007, 2006, and 2005, Mattel paid a dividend per share of $0.75, $0.65, and $0.50, respectively, to holders of its common stock. The Board of Directors declared the dividend in November, and Mattel paid the dividend in December of each year. The payment of dividends on common stock is at the discretion of the Board of Directors and is subject to customary limitations.

Securities Authorized for Issuance under Equity Compensation Plans

The information regarding Mattel s equity compensation plans is incorporated herein by reference to Item 12.

Recent Sales of Unregistered Securities

During the fourth quarter of 2007, Mattel did not sell any unregistered securities.

Issuer Purchases of Equity Securities

During 2007, 2006, and 2005, the Board of Directors authorized Mattel to increase its share repurchase program by $750.0 million, $250.0 million, and $500.0 million, respectively. During 2007, Mattel repurchased 35.9 million shares at a cost of $806.3 million. During 2006, Mattel repurchased 11.8 million shares at a cost of $192.7 million. During 2005, Mattel repurchased 28.9 million shares at a cost of $500.4 million. At December 31, 2007, share repurchase authorizations of $0.9 million had not been executed. In January 2008, the Board of Directors authorized Mattel to increase its previously announced share repurchase program by an additional $500.0 million. Repurchases will take place from time to time, depending on market conditions. Mattel s share repurchase program has no expiration date.

This table provides certain information with respect to Mattel s purchases of its common stock during the fourth quarter of 2007:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 31				
Repurchase program (1)	2,090,200	$ 23.75	2,090,200	$ 112,169,826
Employee transactions (2)	90	$ 23.31	N/A	N/A
November 1 30				
Repurchase program (1)	5,105,919	$ 20.12	5,105,919	$ 9,438,660
Employee transactions (2)			N/A	N/A
December 1 31				
Repurchase program (1)	431,000	$ 19.82	431,000	$ 895,076
Employee transactions (2)			N/A	N/A
Total				
Repurchase program (1)	7,627,119	$ 21.10	7,627,119	$ 895,076
Employee transactions (2)	90	$ 23.31	N/A	N/A

(1) In May and August 2007, the Board of Directors authorized Mattel to increase its share repurchase program by $250.0 million and $500.0 million, respectively. Repurchases will take place from time to time, depending on market conditions. Mattel s share repurchase program has no expiration date.

(2) Includes the sale of restricted shares for employee tax withholding obligations that occur upon vesting.

N/A Not applicable.

Performance Graph

The following graph compares the performance of Mattel common stock with that of the S&P 500 Index and the S&P 500 Consumer Staples Index. The Cumulative Total Return listed below assumes an initial investment of $100 on December 31, 2002 and reinvestment of dividends.

Comparison of Five Year Cumulative Total Return

Mattel, Inc., S&P 500, and S&P 500 Consumer Staples Index

2002 to 2007

Cumulative Total Return	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Mattel, Inc.	$ 100.00	$ 102.72	$ 106.29	$ 89.00	$ 131.14	$ 114.53
S&P 500	$ 100.00	$ 128.36	$ 142.14	$ 149.01	$ 172.27	$ 181.72
S&P 500 Consumer Staples	$ 100.00	$ 111.35	$ 120.36	$ 124.63	$ 142.56	$ 162.76

Item 6. Selected Financial Data.

	For the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share and percentage information)				
Operating Results:					
Net sales (a)	$ 5,970,090	$ 5,650,156	$ 5,179,016	$ 5,102,786	$ 4,960,100
Gross profit	2,777,300	2,611,793	2,372,868	2,410,725	2,429,483
% of net sales	46.5%	46.2%	45.8%	47.2%	49.0%
Operating income	730,078	728,818	664,529	730,817	785,710
% of net sales	12.2%	12.9%	12.8%	14.3%	15.8%
Income before income taxes	703,398	683,756	652,049	696,254	740,854
Provision for income taxes (b)	103,405	90,829	235,030	123,531	203,222
Net income	$ 599,993	$ 592,927	$ 417,019	$ 572,723	$ 537,632
Net income per common share basic	$ 1.56	$ 1.55	$ 1.02	$ 1.37	$ 1.23
Net income per common share diluted	$ 1.54	$ 1.53	$ 1.01	$ 1.35	$ 1.22
Dividends Declared Per Common Share	$ 0.75	$ 0.65	$ 0.50	$ 0.45	$ 0.40

	December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Financial Position:					
Total assets	$ 4,805,455	$ 4,955,884	$ 4,372,313	$ 4,756,492	$ 4,510,950
Noncurrent liabilities	928,284	940,390	807,395	643,509	826,983
Stockholders equity	2,306,742	2,432,974	2,101,733	2,385,812	2,216,221

(a) Effective October 1, 2003, close out sales previously classified as a reduction of cost of sales are now classified as net sales in Mattel s consolidated statements of operations. Close out sales during 2003 totaled $57.3 million. Close out sales for the fourth quarter of 2003, totaling $19.2 million, were included in reported net sales. This change in classification had no impact on gross profit, operating income, net income, net income per common share, balance sheets or cash flows.

(b) The provision for income taxes in 2007 was positively impacted by net tax benefits related to prior years of $42.0 million related to reassessments of tax exposures based on the status of current audits in various jurisdictions around the world, including settlements, partially offset by enacted tax law changes. The provision for income taxes in 2006 was positively impacted by the Tax Increase Prevention and Reconciliation Act (the Tax Act) passed in May 2006, and tax benefits of $63.0 million related to tax settlements and refunds of ongoing audits with foreign and state tax authorities. The provision for income taxes in 2005 was negatively impacted by incremental tax expense of $107.0 million, resulting from Mattel s decision to repatriate $2.4 billion in previously unremitted foreign earnings under the American Jobs Creation Act (the Jobs Act), partially offset by $38.6 million of tax benefits primarily relating to tax settlements reached with various tax authorities and reassessments of tax exposures based on the status of current audits in various jurisdictions around the world. The provision for income taxes in 2004 was positively impacted by $65.1 million of tax benefits related to an audit settlement with the US Internal Revenue Service (IRS).

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the consolidated financial statements and the related notes. See Item 8 Financial Statements and Supplementary Data.

Overview

Mattel designs, manufactures, and markets a broad variety of toy products worldwide through sales to its customers and directly to consumers. Mattel s business is dependent in great part on its ability each year to redesign, restyle, and extend existing core products and product lines, to design and develop innovative new products and product lines, and to successfully market those products and product lines. Mattel plans to continue to focus on its portfolio of traditional brands that have historically had worldwide appeal, to create new brands utilizing its knowledge of children s play patterns, and to target customer and consumer preferences around the world.

Mattel s portfolio of brands and products are grouped in the following categories:

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket®, Little Mommy®, Disney Classics, Pixel Chix®, and High School Musical (collectively Other Girls Brands), Hot Wheels®, Matchbox®, and Tyco® R/C vehicles and playsets (collectively Wheels), and CARS, Radica® products, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear, and View-Master® (collectively Core Fisher-Price®), Sesame Street®, Dora the Explorer, Winnie the Pooh, Go-Diego-Go!, and See N Say® (collectively Fisher-Price® Friends), and Power Wheels®.

American Girl Brands including Just Like You®, the historical collection and Bitty Baby®. American Girl Brands products are sold directly to consumers, and its children s publications are also sold to certain retailers.

On October 10, 2005, Mattel announced the consolidation of its domestic Mattel Girls & Boys Brands and Fisher-Price Brands divisions into one division. The creation of the Mattel Brands division, which resulted in the consolidation of some management and support functions, preserves the natural marketing and design groups that are empowered to create and market toys based on gender and age groups and is expected to more effectively and efficiently leverage Mattel s scale. These changes are consistent with Mattel s ongoing goals to enhance innovation and improve execution. In connection with this consolidation, Mattel executed an initiative in 2006 to streamline its workforce, primarily in El Segundo, California. The consolidation of these divisions did not change Mattel s operating segments.

Management believes that the business environment for Mattel in 2008 will be similar to that of 2007. Mattel expects to continue facing challenges both domestically and internationally as retailers continue to tightly manage inventory. Additionally, Mattel has experienced continued cost pressures, including higher product costs for commodities, labor, and foreign currency. Management believes that Mattel will continue to encounter a challenging retail environment, along with cost pressures. Additionally, in 2008, Mattel will incur higher product testing costs and, until all recall-related legal matters are resolved, additional legal expenses.

Mattel s objective is to continue to create long-term shareholder value by generating strong cash flow and deploying it in a disciplined and opportunistic manner as outlined in Mattel s capital and investment framework. To achieve this objective, management has established three overarching goals.

The first goal is to enhance innovation in order to reinvigorate the Barbie® brand, while maintaining growth in other core brands by continuing to develop popular toys. Additionally, Mattel plans to pursue additional licensing arrangements and strategic partnerships to extend its portfolio of brands into areas outside of traditional toys.

The second goal is to improve execution in areas including manufacturing, distribution, and selling. Mattel continues to focus on improving the efficiency of its supply chain using Lean supply chain initiatives. The objective of the Lean program is to improve the flow of processes, do more with less, and focus on the value chain from beginning to end.

The third goal is to further capitalize on Mattel s scale advantage. For example, as the world s largest toy company, Mattel believes it can realize cost savings when making purchasing decisions based on a One Mattel philosophy.

Product Recalls and Withdrawals

During the third quarter of 2007, Mattel recalled products with high-powered magnets that may become dislodged and other products, some of which were produced using non-approved paint containing lead in excess of applicable regulatory and Mattel standards (collectively, the Third Quarter of 2007 Recalls). Additional products were recalled, withdrawn from retail stores, or replaced at the request of consumers in the fourth quarter of 2007 as a result of small parts separating from a product, some instances of paint containing lead in excess of applicable regulatory standards in another product, and the presence of lead in the substrate in excess of an Illinois regulatory standard in other products (collectively, along with the Third Quarter of 2007 Recalls, the 2007 Product Recalls).

As a result of the Third Quarter of 2007 Recalls, Mattel intentionally slowed down its shipments out of Asia while it conducted extensive product testing in the third quarter of 2007. Also, export licenses at several manufacturing facilities in China were temporarily suspended in September 2007 while safety procedures were reviewed, but all licenses were in place at December 31, 2007. Mattel s ability to import products into certain countries was also temporarily impacted by product recalls as certain countries and regulatory authorities reviewed Mattel s safety procedures; however, these import and export issues were largely resolved early in the fourth quarter of 2007 and did not have a significant financial impact on Mattel s 2007 results.

The third quarter of 2007 recall of products with high-powered magnets was a recall of older toys that do not meet Mattel s current magnet retention system requirements. Since November 2006, when Mattel conducted its first voluntary recall for magnetic toys, Mattel has implemented enhanced magnet retention systems across all of its brands. At the beginning of 2007, all magnets must be locked into the plastic toy with sturdy material holding in the edges around the exposed face of the magnet or completely covering or encapsulating the magnet. Mattel also conducted an extensive review of technical data and consumer information on all magnetic toys and is confident in the new requirements, based on its continued testing and consumer experience.

In July 2007, Mattel determined that certain products, manufactured by a third-party contract manufacturer in China, were produced using non-approved paint containing lead in excess of applicable regulatory standards. As a result, and also in July 2007, Mattel launched a thorough investigation and expanded its testing programs to ensure that painted finished goods, at third-party contract manufacturers as well as facilities operated by Mattel, are systematically tested prior to being shipped to customers. The expanded testing programs include a check system to enforce compliance with all regulations and standards applicable to lead paint. Mattel has also created a new Corporate Responsibility organization, which has an even greater level of accountability internally and externally for adherence to the company s safety and compliance protocols.

Although management is not aware of any additional significant issues associated with lead in paints used on, or lead in substrate used in, its products, there can be no assurance that additional issues will not be identified in the future. Mattel believes that it has some of the most rigorous quality and safety testing procedures in the toy industry. Management also believes that Mattel s history of acting responsibly and quickly will maintain the trust of its customers and consumers. However, the 2007 Product Recalls may have a negative impact on both customer and consumer demand for Mattel s products in the future.

Results of Operations

2007 Compared to 2006

Consolidated Results

Net sales for 2007 were $5.97 billion, a 6% increase as compared to $5.65 billion in 2006, including a 3 percentage point benefit from changes in currency exchange rates. Net income for 2007 was $600.0 million, or $1.54 per diluted share, as compared to net income of $592.9 million, or $1.53 per diluted share, for 2006.

Gross profit, as a percentage of net sales, increased to 46.5% in 2007 from 46.2% in 2006. The increase in gross profit was driven by price increases and favorable changes in currency exchange rates, which were partially offset by external cost pressures and the impact of the 2007 Product Recalls, which reduced gross profit by approximately $71 million.

Income before income taxes as a percentage of net sales declined to 11.8% in 2007 from 12.1% in 2006. Contributing to this decline were higher selling and administrative expenses as a percentage of net sales and higher advertising expenses as a percentage of net sales, partially offset by higher gross margins, lower interest expense, and higher other non-operating income. The increase in other selling and administrative expenses in 2007 is primarily attributable to the impact of the 2007 Product Recalls, which increased other selling and administrative expenses by approximately $35 million. Higher investments in the business, including design and development costs and expansion in international markets, the impact of foreign exchange rates, increases in employee-related costs, and the inclusion of Radica costs also contributed to the increase. These costs increases were partially offset by lower 2007 incentive and equity compensation expenses. Other selling and administrative expenses in 2006 included $19.3 million for prior period unintentional stock option accounting errors. Other non-operating income, net increased from $4.3 million in 2006 to $11.0 million in 2007, primarily due to foreign currency exchange gains.

Net income in 2007 was positively impacted by net tax benefits related to prior years of $42.0 million due to reassessments of tax exposures based on the status of current audits in various jurisdictions around the world, including settlements, partially offset by enacted tax law changes. Net income in 2006 was positively impacted by the Tax Act passed in May 2006 and tax benefits of $63.0 million related to settlements and refunds of multiple ongoing audits by foreign and state tax authorities.

The following table provides a summary of Mattel s consolidated results for 2007 and 2006 (in millions, except percentage and basis point information):

For the Year					
2007		2006		Year/Year Change	
	% of Net		% of Net		Basis Points
mount	Sales	Amount	Sales	%	of Net Sales
5,970.1	100.0%	$ 5,650.2	100.0%	6%	
2,777.3	46.5%	$ 2,611.8	46.2%	6%	

708.8	11.9	651.0	11.5	9%

Wholesale and Internat

Wholesale and International Banking provides banking and related services for major UK and multinationa
financial institutions, and small and medium-sized UK businesses. It also provides asset finance and share registra
personal and corporate customers, manages Lloyds TSB Group s activities in financial markets through its treas
provides banking and financial ser

2004 has seen a further increase in corporate activity with the tighter integration of the businesses within the W

Corporate Markets combining the respective strengths of Corporate Banking, Structured Finance and Financial
an integral role in leveraging and expanding the customer franchise and building deep, long-lasting relationsl
Banking manages the core franchise, providing a relationship-based financial and advisory service to the corpora
through dedicated regional teams throughout the UK and key strategic locations abroad, including New York. C
access to the Lloyds TSB Group s capital and expertise in a broad range of financial solutions. The relationship n
conduit to partners in the Wholesale Bank and other parts of the Group. Structured Finance comprises the pri
leveraged debt businesses and other transactional lending businesses of the Wholesale Bank. Structured Fi
transactions within the existing corporate franchise as well as building an avenue for new to bank relations
Markets is a leading participant in the sterling money market. It is also active in currency money markets, fo
markets and in certain derivatives markets, primarily to meet the needs of customers. It also plays a central role
cash and liquidity management of Lloy

Asset Finance. Lloyds TSB Group s asset finance businesses provide individuals and companies with finance
hire purchase and contract hire packages. Hire purchase, or instalment credit, is a form of consumer financing wh
takes possession of goods on payment of an initial deposit but the legal title to the goods does not pass to the cus
agreed number of instalments have been paid and the option to purchase has been exercised. Through its invoice d
factoring subsidiary, Lloyds TSB Commercial Finance, Lloyds TSB Group provides working capital finance
Specialist personal lending, store credit and the Dutton-Forshaw motor dealership group complete this group

Business Banking. Relationships with some 574,000 small businesses are managed by around 1,700 dedicated bus
based in over 500 locations throughout the UK supported by nearly 2,000 business customer advisers in branche
Group is one of the leading banks for new business start-ups with nearly a quarter of new businesses opening a
Lloyds TSB. The main activity of The Agricultural Mortgage Corporation is to provide long-term finance to

<u>Interna</u>

The Lloyds TSB Group has continued to reshape its international network in 2004 as the sales of its businesse
Colombia, Guatemala, Panama and Honduras were completed c

Europe. Lloyds TSB Group has private banking operations for wealthy individuals outside their country of
business is conducted through branches of Lloyds TSB Bank located in Switzerland, Luxembourg, Monaco and C
are also personal and corporate banking operations in Belgium, The Netherla

Offshore banking. Lloyds TSB Group s offshore banking operations comprise offices in the UK, the Channel Is
Man and overseas representative offices in the Middle East, Asia and the Americas. The business provides a wide
banking, wealth management and expatriate services to local island residents, UK expatriates, foreign nationa
customers requiring offshore fin

The Americas. Lloyds TSB Group continues to have offices in Ecuador, Paraguay and Uruguay which provide m
banking services. In addition, Lloyds TSB Group has private banking and investment operat

Middle East and Asia. There are banking operations in Hong Kong, Singapore, Tokyo, Malay

Recent

Lloyds TSB Group issued a trading statement on 20 June 2005, which made the follow

On a comparable basis under International Financial Reporting Standards (IFRS), excluding the imp
accounting changes relating to the implementation of IFRS, Lloyds TSB expects to deliver a satisfactory trading p
the first half of 2005 and continues to deliver good earnings growth, demonstrating further progress in its key stra

The Retail Bank has continued to make progress in quality customer recruitment and profitable franchise devel
expected to achieve satisfactory levels of customer lending and deposit balance growth during the half-year, aga
of slowing consumer spending. The rate of consumer lending growth in the first half of 2005 is however expecte
lower than the double digit growth rates experienced

Scottish Widows has continued to benefit from its focus on product and capital efficiency. The launch, in the
2004, of a new range of products more tailored to the branch network distribution channel has delive

unit trust/OEIC sales during the first quarter of 2005. In addition, strong progress continues to be made in the disti
pensions and long-term savings products through the Independent Financial Adviser distri

In Wholesale and International Banking, strong progress continues in developing and deepening our franchis
Banking and Corporate Markets, in particular, we are registering meaningful gains which reflect both our emph
and relationship cross-sell, and new customer acquisition. All main businesses within the division continue to pe
we are achieving good levels of profitable

The Group s strong cost performance in recent years has continued into the first half of 2005 and we ha
improvements in processing quality. The Group continues to expect to deliver revenue growth in excess of cos
IFRS comparable basis, in the fir

Our focus on lending to existing customers, in a slowing consumer environment, has resulted in overall asset qu
satisfactory. On an IFRS comparable basis, the Group s impairment charge for loan losses from its continuing
annualised percentage of average lending, is expected to be broadly consistent with the provisions charge in
2004. A higher charge in Retail Banking, reflecting an increase in the number of customers experiencing repaym
is expected to be offset by a lower charge in the Group s corporate le

Current indications remain that the overall impact of the full implementation of IFRS, excluding the volatility int
requirements of IFRS and FRS 27, will be to reduce the Group s full year reported earnings per share, compare
would have been reported under UK GAAP, by approximately 6 per cent. Profit before tax (before volatility) is
approximately 8 per cent lower. This likely reduction in earnings in 2005 is almost entirely due to changes i
income and expense recognition in the Group s financial statements, in particular with regard to the applica
interest rates, the reclassification of certain securities from equity to debt, and the impact of discounting on lev
impairment. The Group will endeavour to ensure that comparable underlying business performance and trends,
the impact of prospective accounting changes relating to the implementation of IFRS, are clearly identified on an

Eric Daniels, Group Chief Executive, said We are continuing to make progress against our objective to deliver su
growth, despite signs of a slowing consumer environment in the UK, and the Group is on track to deliver a satis
performance for the fir

As at 31 December 2004, Lloyds TSB Group occupied 3,394 properties in the UK. Of these, 699 were held as f
long-term leaseholds and 2,617 as short-term leaseholds. The majority of these properties are retail branches, wid
throughout England, Scotland and Wales. Other buildings include the Lloyds TSB Group s head office in the City
customer service and support properties located to suit business needs, but clustered largely in London, Birmingh
England), Edinburgh (in Scotland) and Cardiff and Newp

In addition, Lloyds TSB Group owns, leases or uses under licence properties for business operations elsewhe
principally in Spain, Switzerland, D

Lloyds TSB Group is periodically subject to threatened or filed legal actions in the ordinary course of busines
Group does not expect the final outcome of any legal proceedings currently known to it to have a material adver
consolidated results of operations or finan

Competitive

Lloyds TSB Group operates in a financial services world that is experiencing consolidation at national and, to
international levels. The last few years have seen the beginnings of pan-European consolidation and considerabl

Globalisation and developments in technology continue to expand Lloyds TSB Group s range of competitors. Th
of competition is expected to put Lloyds TSB Group s margins under further pressure with many products becom
commoditised. Wholesale markets are integrating more rapidly across the European Union than their retail counte
to a deeper, more liquid, and more competitive corporate securities market, and the gradual disintermediation of t

Lloyds TSB Group expects competition within the industry to continue to be based on service and relationships a
particularly for core banking services. Lloyds TSB Group has significant strengths, in its portfolio of strong bran
customer franchises in both retail and corporate, commercial and business banking, its multi-channel distribution
its knowledge and understanding o

Lloyds TSB Group s key markets are in the UK, in both the retail and corporate, commercial and business bankin
the markets for basic financial and banking services are relatively mature. Retail banking markets have shown
growth in recent years, notably in consumer borrowing and mortgages, but the resultant high rates of consumer in
expected to restrain future growth. The markets for life and pensions and general insurance products are expected
rates of growth in a number of key areas, although stock market weakness has depressed demand for some equity-
in the recent past, and a considerable amount of uncertainty exists about the impact of regu

Lloyds TSB Group s competitors include all the major financial services and fund management companies oper
De-mutualised building societies which have become banks and life assurers which have entered the bankin
become direct competitors in the provision of ban

In the mortgage market, competitors include the traditional banks and building societies and new entrants to the m
market becoming increasingly competitive as both new entrants and incumbents endeavour to gain market shar
Group s competitors in the credit card market again include both the traditional banks and new entrants, in
companies. In the last few years a significant share of new business has been acquired by US and new U

In the distribution of life, pensions and investments products Lloyds TSB Group has seen increased compet
market entrants, such as traditional retailers, primarily in specialist areas. The fragmented nature of the lif
investments market in the UK has resulted in some consolidation within the sector; government regulations on p
and competitive pressures are likely to drive further consolidation as providers seek to achieve the benefits o
scale. Changes to the regulation of life, pensions and investment products are expected to favour distributors, in
rather than pro

In the general insurance sector, the market has seen significant consolidation amongst underwriters but continued
in distribution and an increasing number of new market entrants including both overseas insurers and d

In commercial and corporate markets, margins are typically finer than in retail, but probably under less dow
Nevertheless, traditional forms of bank finance face increasing competition from market-based product
increasingly access those m

In addition to the challenging competitive environment, the UK financial services industry is characterised by rece
intervention and regulation. This partly emanates from Europe as part of the Financial Services Action Plan or in th
social legislation. Many of the reviews instigated by the UK government into the financial services sector have
backdrop of increased consumerism, driven by support for open competition and a fair deal fo

Lloyds TSB Group has always supported the principle of competition and agrees with the importance of buil
confidence in financial services. Lloyds TSB Group has concerns about the introduction of price controls, wh
barrier to entry and believes that voluntary codes, rather than statutory regulation, are in the best interests of

OPERATING AND FINANCIAL REVIEW AND

The results discussed below are not necessarily indicative of Lloyds TSB Group s results in future periods information contains certain forward-looking statements. For a discussion of certain cautionary statem forward-looking statements, see Forward-Lookin

The following discussion is based on and should be read in conjunction with the Consolidated Financial Stat related notes thereto included elsewhere in this annual report. For a discussion of the accounting policies used in of the Consolidated Financial Statements, see Accounting policies in note 1 to the Consolidated Financia Consolidated Financial Statements are prepared in accordance with UK GAAP, which varies in certain significan US GAAP. A discussion of such differences and a reconciliation of certain UK GAAP amounts to US GAA note 50 to the Consolidated Financ

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Critical accounting policies	13	Risk management
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Overview and tren

Lloyds TSB Group has operations in both the UK and overseas; however, its earnings are heavily dependent up
activities. In 2004, 94 per cent of Lloyds TSB Group s profit before tax was derived from its UK operations. Th
economy, therefore, has significant implications for the way in which Lloyds TSB Group runs its business and it

During 2004 the UK economy benefited from global economic growth approaching 5 per cent. This stimulated a
manufacturing sector and strengthened the corporate sector, as demand has boosted profit growth and more stab
have encouraged business investment. The consumer sector has remained strong as house prices continued to incr
the first half of the year, although some levelling off in house prices was experienced towards the

Growth is expected to slow during 2005 as a result of the impact of interest rate increases in 2004. The high lev
debt has made consumers very responsive to interest rate changes, with the burden of debt repayments now abov
average. Although the growth in house prices is expected to slow in 2005, consumer confidence should not
affected; a gradual economic slowdown usually implies little change in unemployment, which is a major driver

Against this economic backdrop, there has been continued growth in each of Lloyds TSB Group s three divi
Banking, as a result of strong growth in personal loans and credit card balances; Insurance and Investment
increased weighted sales, particularly from Independent Financial Advisers; and Wholesale and International Bank
seen increased volumes in Asset Finance and Corporate products, where the creation of an integrated regional sal
already started to generate p

Lloyds TSB Group s net interest margin declined during 2004, reflecting the impact of changes in busines
margins in the Group s credit card, personal lending and mortgage portfolios as a result of competitive pressur
charge for 2004 was lower than in 2003; this resulted from a lower charge in Wholesale and International Ban
within Corporate as a result of improving economic conditions, and a higher charge in UK Retail Banking, ref
related growth in personal loans and cred

Critical accou

The results of Lloyds TSB Group are sensitive to the accounting policies, assumptions and estimates that underlie
of its financial statements. The accounting policies used in the preparation of the financial statements are set out
financial statements. In preparing the financial statements, the directors are required to select suitable accounting
them consistently and make judgements and estimates that are reasonable and prudent. Where UK GAAP allo
policy, Financial Reporting Standard 18 Accounting Policies requires Lloyds TSB Group to adopt those pol
most appropriate to its particular circumstances for the purpose of giving a tru

The accounting policies that are deemed critical to the Lloyds TSB Group s results and financial position, based
and significant judgements and estimates, are di

Provisions for bad and

In circumstances where there is significant doubt over the recoverability of specific loans and advances, provisio
reduce the carrying value of those advances to their expected ultimate net realisable value; at 31 December 2004, t
Group held specific provisions totalling £1,383 million. The methodology used to calculate the required p
according to the type of lending portfolio. For portfolios of smaller balance homogenous loans, such as residen
personal loans and credit card balances, specific provisions are calculated using formulae which take into account
the length of time that the customer s account has been delinquent, historic loss rates and the value of any col
variables used in the formulae are kept under regular review to ensure that as far as possible they reflect the cu
circumstances, although actual experience may differ fron

For the Lloyds TSB Group s other lending portfolios, provisions are calculated on a case-by-case basis having re
future cash flows including those arising from the realisation of collateral. The determination of these provisions
the exercise of considerable judgement by management involving matters such as future economic conditions ar
trading performance of the customer and the value of collateral, for which there may not be a readily accessib
result these provisions can be subject to significant variation as time progresses and the circumstances of the cu

The Lloyds TSB Group also maintains a general provision to cover latent bad and doubtful debts which are
portfolio of advances but which have not been specifically identified; at 31 December 2004, the general provisio
£280 million. The calculation of the general provision requires a significant amount of judgement to assess the
inherent in the portfolio and is based upon factors such as the level of watchlist or potential problem debt, the prop
debt to become impaired and historic loss rates. The general provision is allocated to business units which are
reviewing the balance on a regular basis to ensure that it remains appropriate in prevailing economic conditions
of the perceived level of credit risk within their lend

Customer remediat

The Lloyds TSB Group establishes provisions for the estimated cost of making redress payments to customers in
product sales, in those cases where the original sales processes are found to have been deficient. The ultimate co
uncertain and in determining the level of provisions required it is necessary for management to exercise signific
The principal assumptions underlying the provisions relate to the number of cases requiring redress and the est
cost of redress per case; these will be affected by external factors beyond the control of management, such as reg
and the performance of the financial markets. Therefore over time it is possible that adjustments will be necessary
p

Goodwi

Lloyds TSB Group reviews the goodwill arising on the acquisition of subsidiary undertakings when event
economic circumstances indicate that impairment may have taken place and at the end of the first full year after an
addition, since the goodwill arising on the acquisition of Scottish Widows is considered to have an indefinite usef
of the strength of the brand and the position of the business as one of the leading providers of life, pensions, uni
management products, and is therefore not amortised, the Lloyds TSB Group is required under UK GAAP to per
review to determine whether an impairmen

The impairment review is performed by projecting future cash flows, excluding finance and tax, based upon bu
and making appropriate assumptions about rates of growth and discounting these using a rate approximating t
weighted average cost of capital of the business. If the present value of the projected cash flows were to be mate
the carrying value of the underlying net assets and related goodwill an impairment would have occurred and a c
made to the profit and loss account. This calculation requires the exercise of significant judgement by man
estimates made prove to be incorrect or changes in Scottish Widows performance affect the amount and timi
flows, the goodwill may become impaired in

Em

Lloyds TSB Group accounts for the value of the shareholder s interest in the long-term assurance business usi
value basis of accounting. The embedded value is comprised of the net tangible assets of the life assurance subs
present value of the projected future surplus arising on the in-force business, which is calculated by projecting
and other net cash flows attributable to the shareholder arising from business written by the balance sheet date a
the result at a rate which reflects the shareholder s overa

Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality
expenses. Surpluses are projected by making assumptions about future experience, having regard to both actual
forecast long-term economic trends. Changes to these assumptions may cause the present value of future surpluse
those assumed at the balance sheet date and could significantly affect the value attributed to the in-force busines
the financial statements the effect of illustrative changes in the principal economic assumptions upon the e
included in the balance sheet and new business in

The value of the in-force business could also be affected by unpredicted changes in investment market levels and
variances between expected and actual experience. Investment market levels principally affect annual manageme
other fees levied on policyholders, which are reflected in the profit and loss account using unsmoothed fund valu
to the extent that actual experience is different from that assumed, for example with respect to mortality or persist
will be recognised in the profit and loss account for the period. The effect of changes in the underlying a
variations between actual and assumed experience on the results of the current and prior periods are disclosed i
finan

Results of operations 2004 compared with 2003 and 2003 comp

	2004	2003	2002
	£m	£m	£m
Net interest income	**4,920**	5,255	5,171
Other finance income	**39**	34	165
Other income	**4,608**	4,619	3,551
Total income	**9,567**	9,908	8,887
Operating expenses	**(4,917)**	(5,173)	(4,913)
Trading surplus	**4,650**	4,735	3,974
General insurance claims	**(224)**	(236)	(229)
Provisions for bad and doubtful debts	**(866)**	(950)	(1,029)
Amounts written off fixed asset investments	**(52)**	(44)	(87)
Operating profit	**3,508**	3,505	2,629
Share of results of joint ventures		(22)	(11)
(Loss) profit on sale of businesses	**(15)**	865	
Profit on ordinary activities before tax	**3,493**	4,348	2,618
Tax on profit on ordinary activities	**(1,004)**	(1,025)	(766)
Profit on ordinary activities after tax	**2,489**	3,323	1,852
Minority interests:			
Equity	**(26)**	(22)	(19)
Non-equity	**(42)**	(47)	(43)
Profit attributable to shareholders	**2,421**	3,254	1,790
Economic profit1	**1,525**	2,493	830

[1] Lloyds TSB Group defines economic profit as the earnings on the equity invested in the business less a notional charge f
equity invested in that business. See Operating and financial review and prospects

2004 compa

In 2004 the Group s profit before tax was £3,493 million, a decrease of £855 million compared to £4,348 milli
decrease was attributable to the impact in 2003 of the profit on the sale and trading results of a number of overs
which contributed £1,183 million. For the same reason, profit attributable to shareholders decreased by £833 mi
cent, to £2,421 million and earnings per share decreased by 26 per cent to 43.3p. Excluding these discontinued c
the comparative figures, the profit before tax of £3,493 million in 2004 was up by £328 million, or 10
£3,165 n

Net interest income of £4,920 million was down £335 million, or 6 per cent, from £5,255 million in 20
discontinued operations from the comparative figures for 2003, net interest income was £176 million, or 4 per
£4,920 million compared to £4,744 million in 2003. Average interest-earning assets grew by £6,085 million, c
£178,981 million in 2004 compared to £172,896 million in 2003. However, comparisons of average interest-ear
distorted by the effect of the businesses sold in 2003 and by substantial growth, during 2004, in balances of f
capital efficient, reverse repurchase agreements held for liquidity purposes. Excluding discontinued operations anc
under reverse repurchase agreements, average interest-earning assets grew by £12,058 million, or 8 per cent, to £1
in 2004 compared to £158,167 million in 2003, adding £351 million to net interest income. This growth reflecte
higher volumes in mortgages, personal lending and card balances, asset finance and corporate lending. The net i
again excluding discontinued operations and balances held under reverse repurchase agreements, fell by 11
2.89 per cent in 2004 compared to 3.00 per cent in 2003, reducing net interest income by £173 million, la
competitive pressures leading to keener pricing in a number of areas. Exchange rate movements, excludir
operations, accounted for the remaining reduction of £2 million in net i

Other finance income of £39 million was £5 million higher than in 2003. A £68 million increase in the exp
defined benefit pension scheme assets, as a result of an improvement in market levels at the end of 2003, was larg
£63 million increase in the interest cost of scheme liabilities, reflecting an increase in liability le

Other income of £4,608 million was £11 million lower than in 2003. However, excluding discontinued oper
comparative figures for 2003, other income was £131 million, or 3 per cent, higher. Fees and commissions receiva
discontinued operations, were £137 million higher, reflecting growth in UK current account fees and card servi
reflecting the acquisition of the Goldfish business at the end of September 2003, and in fee income from compa
mortgage, unit trust and corporate banking activities. Fees and commissions payable, excluding discontinued o
£56 million higher, as a result of growth in the asset finance and card services businesses. Dealing pro
discontinued operations, were £254 million lower, as a result of the non-repetition of the gains made in 2003 or
Lloyds TSB Group s remaining portfolio of emerging markets debt securities and the closure of certain f
positions. Income from long-term assurance business, excluding discontinued operations, was £279 million higher
reduction in the charge in respect of provisions for customer redress and a significant improvement in profitab
Scottish Wi

Operating expenses of £4,917 million were £256 million, or 5 per cent, lower than £5,173 million in 20

discontinued operations from the comparative figures, expenses in 2004 were £16 million higher than in 20
improvements have been made in processing and operational efficiency and the Group has continued to expand its
offshoring a number of its processing and back office operations to India. There was an increase of £116 millio
reflecting the annual pay rise, improved profit related and other incentive payments, especially within the gro
banking business, and the impact of the acquisition of the Goldfish business at the end of September 2003
equipment costs were £5 million higher and communications, advertising and professional fees and other costs we
higher. These increases were, however, largely offset by a £44 million reduction in the depreciation charge, due
mix in the operating lease portfolio and an accelerated charge made in 2003, and a reduction of £100 million i
respect of provisions for customer redress in the Lloyds TSB Group s ban

General Insurance claims were £12 million lower as a result of relatively low weather-related c

The charge in respect of provisions for bad and doubtful debts was £84 million, or 9 per cent, lower at £866 millio
£950 million in 2003. Excluding discontinued operations, the charge was £21 million, or 2 per cent, lower a
compared to £887 million in 2003. There was an increase of £79 million within UK Retail Banking, as a result of
of the Goldfish business and organic growth in personal lending and credit cards, only partly offset by a highe
respect of the mortgage portfolio. Within Wholesale and International Banking, however, there was a reduction o
excluding discontinued operations, as the impact of volume growth in the asset finance operations was more t
reduced charge in respect of corporate banking and the release of £30 million from the general provision that was
of the Lloyds TSB Group s exposu

Amounts written off fixed asset investments of £52 million were £8 million higher than in 2003, as a result of l
within the Lloyds TSB Group s venture ca

There was an improvement of £22 million in the Lloyds TSB Group s share of the results of joint venture c
former Goldfish joint venture is now be

A loss of £15 million was incurred in 2004 on the sale of the Lloyds TSB Group s operations in Argentina, Colon
Hondura

At the end of 2004, the total capital ratio was 10.0 per cent. Risk-weighted assets increased by 12 per cent to £1
reflecting strong growth in consumer lending and mortgages, higher lending in Corporate Markets and the acqu
corporate loan portfolio towards the end of the year from Danske Bank which added risk-weighted
£2,000 million. Balance sheet assets grew by £27,831 million, or 11 per cent to £279,843 million from £252,0
Group s strategy to increase retail lending, particularly in mortgages, credit cards and personal loans was reflected
increase in loans and advances to customers to £154,240 million. Customer deposits increased by £5,566 million
to £122,062 million largely as a result of strong growth in current account credit balances which was suppo
progress in the take-up of added value cu

2003 compa

In 2003, Lloyds TSB Group s profit before tax increased by £1,730 million, or 66 per cent, to £4,348 million fro
in 2002; this increase in profitability largely reflects net gains of £865 million recognised in 2003 following th
number of businesses and a £934 million improvement in the return from the assets supporting the long-term as
Profit attributable to shareholders was 82 per cent higher at £3,254 million and earnings per share increased by
58.3p. Shareholders equity increased by £1,681 million to £9,624 million. The post-tax return on average sha
was 38.5 per cent, compared to 16.8 per cent in 2002. Economic profit increased by £1,663 million to £2,4
Operating and financial review and prospects Economic profit . The post-tax return on average assets was 1.
post-tax return on average risk-weighted assets wa

Total income was £1,021 million higher at £9,908 million, compared to £8,887 million in 2002. Lloyds TSB Gro
income increased by £84 million, or 2 per cent, to £5,255 million. Average interest-earning assets increased by £
or 7 per cent, to £172,896 million, adding £284 million to net interest income. In the UK, average personal lending
balances increased by £10,140 million driven by the strong residential housing market and the continuing deman
credit. Wholesale balances were £1,558 million higher as a result of increased asset finance lending and the ful
structured finance transactions entered into during 2002. Average balances overseas decreased by £720 million
reclassification at the end of 2002 to trading assets of the Lloyds TSB Group s portfolio of emerging markets deb
effect of volume growth was partly offset by a 16 basis point fall in the net interest margin, reducing net inte
£259 million; the implementation of the Competition Commission s SME report remedies caused the mar
10 basis points. Favourable exchange movements increased net interest income l

Other finance income, at £34 million, was down £131 million from £165 million in 2002. The expected ret
scheme assets was £121 million lower, reflecting the significant reduction in market value of scheme assets at the
a result of stock market conditions. The interest charge in respect of the unwinding of the discount on scheme
£10 million higher, as the effect of the increased level of scheme liabilities at the start of 2003 has been partly of

Other income was £1,068 million, or 30 per cent, higher at £4,619 million compared to £3,551 million in 2002
long-term assurance business was £747 million higher, mainly as a result of improved returns from the investme
the life funds. Dealing profits were £372 million higher, as a result of increases of £55 million in foreign exchar
£317 million in gains from securities trading reflecting earnings from the sale of the Lloyds TSB Group s portf
markets debt investments. General insurance premiums were £49 million higher as a result of strong growth in h
products. However, net fees and commissions receivable fell by £31 million as a reduction in income from insuran
higher fees payable within the asset finance and mortgage businesses more than offset growth in income from cu
and credit and debit cards. Other operating income decreased by £69 million, following the recognition of
emerging markets debt portfolio in 2003 in dealing profits following its reclassification to trading assets at the end
reduction of £28 million in profits on the sale and leaseback of premises. This more than offset the effect of the inc
year s income from the Dutton-Forshaw Group which was acquired in December 2002, and higher disposal
wholes

Operating expenses were £260 million, or 5 per cent, higher at £5,173 million compared to £4,913 million in 200
a £200 million provision for customer redress and the inclusion for a full year of the costs of businesses acquired
increased operating expenses by £110 million in 2003. Administrative expenses were £264 million higher than
costs increased by £71 million as the impact of acquisitions and the annual pay review more than offset the benefit
in staff numbers and lower levels of restructuring costs. Premises and equipment costs were £1 million higher and
increased by £192 million reflecting the inclusion of the customer redress provision. The cost: income ratio impro
cent fron

General insurance claims increased by £7 million to £236 million, as the effect of the increase in the size of th
offset by the beneficial effect of generally mild weat

The charge for bad and doubtful debts was 8 per cent lower at £950 million compared with £1,029 million in 2002
Banking the provisions charge increased by £98 million, or 20 per cent, to £594 million, mainly as a result of
growth in the personal loan and credit card portfolios, however there was some deterioration in the arrears
increase in fraud related losses in the personal loan portfolio. In Wholesale and International Banking the pro
decreased by £171 million to £369 million. In Wholesale, provisions against the corporate lending portfoli
£86 million as a small number of large provisions made in 2002 were not repeated. Within International Banking
by £93 million mainly as a result of lower provisions being required against the Lloyds TSB Group s exposu

Amounts written off fixed asset investments decreased by £43 million to £44 million in 2003. The charge in
£30 million in respect of Argentine emerging market bonds which were disposed of in 2003, and there was a
charge within the wholes

In 2003, a profit of £865 million arose on the sale of The National Bank of New Zealand, substantially all of Lloy
businesses in Brazil and its French fund management and private bank

At the end of 2003, the total capital ratio increased to 11.3 per cent principally as a result of profit retentions and
£4,679 million, or 4 per cent, reduction in risk-weighted assets to £117,732 million, from £122,411 million at th
The effect of growth in personal lending, partly as a result of the acquisition of the personal loan and credit ca
Goldfish Bank, and mortgage lending was more than offset by a reduction of £10,110 million as a result of disp
sheet assets decreased by £549 million to £252,012 million; the effect of the disposals during 2003 reduced
£14,602 million and there was therefore an underlying increase of £14,053 million. This underlying increa
attributable to growth in loans and advances to customers with higher period end UK mortgage and personal le

Net i

The yields, spreads and margins in the table below are those relating to the banking

	2004	2003
Net interest income £m	**4,920**	5,255
Average interest-earning assets £m	**178,981**	172,896
Average rates:		
Gross yield on interest-earning assets %1	**5.81**	5.87
Interest spread %2	**2.61**	2.91
Net interest margin %3	**2.75**	3.04
Margin excluding discontinued operations and average balances held under reverse repurchase agreements4		
Net interest income £m	**4,920**	4,744
Average interest-earning assets £m	**170,225**	158,167
Net interest margin %	**2.89**	3.00

1 Gross yield is the rate of interest earned on average interest-earning assets.

2 Interest spread is the difference between the rate of interest earned on average interest-earning assets and the rate of inter average interest-bearing liabilities.

3 The net interest margin represents the interest spread together with the contribution of interest-free liabilities. It is calcul expressing net interest income as a percentage of average interest-earning assets.

4 Comparisons of net interest income and margins between 2004, 2003 and 2002 are distorted by the trading results, in 20 the businesses sold during 2003 and by the substantial growth, during 2004, in holdings of fine margin reverse repurchas To improve comparability, figures are also shown which exclude the net interest income (2003: £511m; 2002: £488m) a interest-earning assets (2003: £13,490m; 2002: £12,918m) of the discontinued operations from the comparative periods exclude the average balances held under reverse repurchase agreements (2004: £8,756m; 2003: £1,239m; 2002: £2,746m

2004 compa

Net interest income decreased by £335 million, or 6 per cent, to £4,920 million compared to £5,255 million in 2 comparisons of net interest income are distorted by the inclusion, in the comparative figures, of the incom businesses disposed of in 2003; excluding these discontinued operations, net interest income rose by £176 millio to £4,920 million in 2004 compared to £4,744 n

Average interest-earning assets grew by £6,085 million, or 4 per cent, to £178,981 million in 2004 compared to £1 in 2003. However, comparisons of average interest-earning assets are distorted by the discontinued operations i substantial growth, during 2004, in fine margin but capital efficient reverse repurchase agreements held for liqu Excluding discontinued operations from the comparative figures and the balances held under reverse repurchase a both years, average interest-earning assets grew by £12,058 million, or 8 per cent, to £170,225 million in 20 £158,167 million in 2003; this growth added £351 million to net interest income. Average balances within UK were £10,875 million higher, reflecting strong growth in mortgages (up 13 per cent), personal loans and overdra 12 per cent) and credit card balances. Average credit card balances were 25 per cent higher overall, reflecting the f of the Goldfish portfolios acquired at the end of September 2003 together with underlying growth of 12 p Wholesale and International Banking average interest-earning assets, excluding discontinued operations and rev agreements, were £578 million higher. Increased business activity lead to an increase of £1,536 million in co balances and £1,314 million within the asset finance businesses, where there has been a change in mix tow lending rather than operating leases. Treasury balances, excluding reverse repurchase agreements, were lower, the International businesses, excluding discontinued operations, fell as growth in offshore lending was mor further contractions in Latin America and by reductions in corporate lending balances in ma

The Lloyds TSB Group s net interest margin fell by 29 basis points to 2.75 per cent in 2004, compared to 3.04 However, excluding discontinued operations from the comparative figures and balances held under rev agreements from both years, the net interest margin fell by 11 basis points to 2.89 per cent in 2004 compared to 2003; this fall in margin reduced net interest income by £173 million. Within UK Retail Banking, competitive p reductions in the margins on mortgages, overdrafts and personal loans. Within Wholesale and International Ban discontinued operations and balances held under reverse repurchase agreements, there was margin growth in co and on asset finance balances (due to a change in mix towards higher margin consumer balances) but business b tightened, again as a result of competitive pressures leading to the offering of specially priced term lending prod

International businesses, excluding discontinued operations, there were margin reductions on of

Exchange rate movements in the Lloyds TSB Group s overseas operations, excluding discontinued operations, le
of £2 million in net i

2003 compa

Lloyds TSB Group net interest income increased by £84 million, or 2 per cent, to £5,255 million, representing
total income compared to 58 per cent in 2002; businesses disposed of during 2003 contributed £511 mill
compared to £488 million in 2002. Excluding the net interest income of these discontinued operations from th
years, net interest income of £4,744 million in 2003 was £61 million, or 1 per cent, higher than £4,683 n

Average interest-earning assets increased by £11,078 million, or 7 per cent, to £172,896 million. However, in
movements in average interest-earning assets are complicated by the assets held in the businesses sold in 2003 an
of very fine margin, but capital efficient, reverse repurchase agreements held for liquidity and funding purposes. E
discontinued operations and the holdings of reverse repurchase agreements, average interest-earning
£12,013 million or 8 per cent, to £158,167 million in 2003 compared to £146,154 million in 2002; thi
£362 million to net interest income. Within UK Retail Banking continued strong growth led to increases of £2
average personal lending and credit card balances and £7,424 million in average mortgage balances. Within
International Banking, excluding discontinued operations and average balances held under reverse repurcha
average interest-earning assets increased by £2,945 million, reflecting growth in asset finance balances and the ful
structured finance transactions entered into during 2002 which more than offset a reduction in balances within t
Group s treasury operations, excluding balances held under reverse repurchase agreements, due to fewer market
2003. Overseas, excluding discontinued operations, reductions following the contraction of the Lloyds TSB Gro
American operations were more than offset by growth in corporate lending in mainland Europe. There was also
£1,207 million following the reclassification as trading assets and subsequent disposal of the Lloyds TSB Grou
emerging markets

The net interest margin fell by 16 basis points to 3.04 per cent from 3.20 per cent in 2002, reducing net inte
£259 million. The implementation of the Competition Commission s SME report remedies caused a reduction
interest margin of 10 basis points costing £169 million. Excluding discontinued operations, and the average balar
reverse repurchase agreements, the net interest margin fell by 20 basis points from 3.20 per cent in 2002 to 3.00 pe
reducing net interest income by £299 million, of which £169 million was due to the impact of the Competition
SME report remedies. There was some margin erosion within the mortgages business and on credit card balance
overdrafts although there was some improvement in the margin on personal loans. The margin was further reduc
continuing change in the composition of the lending portfolio towards finer margin products and the disposal of th
emerging markets investments. Adverse exchange rate movements, excluding discontinued operations, decrea
income

	2004	2003	2002
	£m	£m	£m
Fees and commissions receivable:			
UK current account fees	**637**	623	579
Other UK fees and commissions	**1,243**	1,173	1,163
Insurance broking	**586**	604	647
Card services	**520**	439	394
International fees and commissions	**138**	148	159
	3,124	2,987	2,942
Fees and commissions payable	**(744)**	(688)	(614)
Dealing profits (before expenses):			
Foreign exchange trading income	**178**	223	143
Securities and other gains	**93**	302	21
	271	525	164
Income from long-term assurance business	**715**	436	(305)
General insurance premium income	**554**	535	486
Other operating income	**688**	682	759
Total other income continuing operations	**4,608**	4,477	3,432
Discontinued operations		142	119
Total other income	**4,608**	4,619	3,551

2004 compa

Other income decreased by £11 million to £4,608 million compared to £4,619 million in 2003. However, the
were sold in 2003 contributed £142 million of other income in that year and, excluding these discontinued oper
comparative figures, other income rose by £131 million, or 3 per cent, to £4,608 million in 2004 from £4,477 m

Fees and commissions receivable, excluding discontinued operations, increased by £137 million, or 5 per cent, to
from £2,987 million in 2003. UK current account fees were £14 million higher than in 2003 as a result of the con
in added value account products and a review of charging policies, although within this figure there has been
£3 million in unauthorised borrowing fees. Other UK fees and commissions were £70 million higher at £1,243 mil
to £1,173 million in 2003. Company registration fees were £15 million higher as a result of a significant increa
Lloyds TSB Registrars, both in terms of sharedealing volumes and corporate actions. Mortgage fees were £16
reflecting both continued growth in the mortgage book and some increase in fee levels during 2004. Unit
£18 million higher reflecting both growth in asset values, and therefore annual management fees, at Scottis
increased volumes within the offshore business. There was also good growth in corporate banking fees, reflecti
large deals completed in 2004, and in acceptance fees. Insurance broking commissions were £18 million lower,
in 2004 compared to £604 million in 2003, as a result of lower levels of retrospective and motor insurance broking
only partly offset by an increase in income from creditor protection products. Fee income from card serv
discontinued operations, was £81 million higher; this reflects a full year s income from the Goldfish business, wh
by the Lloyds TSB Group at the end of September 2003, and a review of pricing and charging policies. Interna
commissions, excluding discontinued operations, were £10 million lower at £138 million compared to £148 m

Fees and commissions payable, excluding discontinued operations, were £56 million or 8 per cent, higher
compared to £688 million in 2003. Commissions payable to motor dealers in the asset finance business were £33
as a result of the continued growth in business volumes. Fees payable within the card services business were £34
reflecting the acquisition of the Goldfish business at the end of September 2003; this increase was partly
reduction in the level of other fees payable within UK

Dealing profits, excluding discontinued operations, were £254 million, or 48 per cent, lower at £271 millio
£525 million in 2003. Foreign exchange income was £45 million lower at £178 million as good growth in inc
Lloyds TSB Group s treasury and corporate banking operations was more than offset by the non-repetition of i
the Group centre from the closure of certain foreign exchange positions in 2003. Securities trading gains wer
lower; again, good growth within the Lloyds TSB Group s treasury operations was more than offset by the fact th
substantial profits on the sale of the remaining assets within the Lloyds TSB Group s portfolio of emerg

Income from long-term assurance business, excluding discontinued operations, was £279 million higher a
compared to £436 million in 2003. The new business contribution, excluding discontinued operations, was £92
reflecting growth in business volumes and an improved margin on new products, and the expected return on ex
was £25 million higher. There was an £88 million reduction in charges for customer remediation provisions (£12
compared to £100 million in 2003) and improved market conditions lead to a £41 million increase in the o
investments held to support the l

Premium income from general insurance underwriting was £19 million, or 4 per cent, higher at £554 milli
£535 million in 2003. This reflected improved income on home contents and creditor insurance, including polici
Lloyds TSB Group s asset finance business, only partly offset by a reduction in health insu

Other operating income, excluding discontinued operations, was £6 million higher as an increase in gains on sale
mainly within the Lloyds TSB Group s venture capital business, was partly offset by a reduction in operat
receivable and in income from the Lloyds TSB Group s motor dealerships, which were rationalised towards

2003 compa

Other income increased by £1,068 million, or 30 per cent, to £4,619 million; of this total businesses disposed
accounted for £142 million compared to £119 million in 2002; excluding discontinued operations, other incon
£1,045 million, or 30 per cent, to

Fees and commissions receivable, excluding discontinued operations, increased by £45 million mainly as a result
in UK current account fees and improved income from credit and debit card transactions, which more than offse
insurance broking commissions. UK current account fee income rose by £44 million, reflecting increased fee inco
value current accounts due to both a growth in the number of accounts and higher monthly charges; returned c
increased as the number of retur

Other UK fees and commissions increased by £10 million. Fees earned by the mortgages business rose by £20 mi
the growth in new mortgage lending during 2003 and an increase in the arrangement fee charged to custome
£14 million increase in the fees charged in connection with the early settlement of personal loans following their

the second half of 2002 and fees from large corporate and factoring activity increased by £16 million. There was a
in fees receivable within the asset finance business; acceptance fees were £7 million higher and collectio
£8 million as a result of volume growth. This growth was largely offset by a reduction of £27 million in unit
management fees reflecting lower average fund values and the continued weakness of the long-term savings mark
from stockbroking activities reduced reflecting lower transaction volumes in weak market conditions and in
company registration business also fell as levels of corporate activity rem

Income from credit and debit card services increased by £45 million mainly as a result of a growth in interchange
reflecting the acquisition of the Goldfish credit card portfolio during 2003, higher overseas use commissions

Insurance broking commission income decreased by £43 million as a result of a £75 million fall in incom
insurance, reflecting a reduction in the level of sales achieved through the branch network and an increase of £3
allowance in respect of the clawback of commissions relating to personal loans which are being settled early, w
offset a £55 million increase in retrospective commissions. International fees and commissions reduced by £11
due to lower fund management fees in a numb

Fees and commissions payable, excluding discontinued operations, were £74 million higher compared to 2002
£36 million increase in commissions paid to motor dealers by the asset finance operation, reflecting growth in th
business, and higher costs relating to legal expenses and valuation fee incentives supporting the strong mortgag
payable in respect of the credit and debit card business also increased, mainly reflecting volume growth and the c
incentives, and there was also an increase in fees payable in connection with the Lloyds TSB Group s added v
volu

Dealing profits, excluding discontinued operations, increased substantially by £361 million compared with 2002 a
increase of £80 million in foreign exchange income and an increase of £281 million in gains from securities
reflecting profits from the disposal of the Lloyds TSB Group s portfolio of emerging markets debt investments
of 2002, was reclassified as a trading asset. In 2002, earnings from emerging markets debt investments were pri
within other ope

Income from long-term assurance business, excluding discontinued operations, increased by £741 millio
improved performance of stock markets during 2003 as the return on the investments held to support the long-
funds grew by £934 million. Although there was only limited growth in overall product sales, new busine
increased by £8 million largely reflecting an improved new business margin caused by a shift to more profitable re
products. Profits from existing business fell by £111 million mainly as a result of a £168 million reduction i
experience variances and actuarial assumption changes, and the expected return reduced by £48 million; however
customer redress were £105 million lower. The benefits from economic assumption changes also reduced

Premium income from general insurance underwriting increased by £49 million, or 10 per cent, to £535 millio
£486 million in 2002. There was growth of £60 million in premiums from home insurance products, reflec
cross-selling to the Lloyds TSB Group s mortgage customers and the continued strength of the UK housing mar
by a £7 million increase in reinsurance premiums due to increased rates in the reinsurance market and high

Other operating income, excluding discontinued operations, decreased by £77 million to £682 million mainly du
in treatment of earnings from the emerging markets debt investments portfolio following the reclassification of th
trading asset at the end of 2002. There was also a further £28 million reduction in profits from the sale a
premises, which in 2003 totalled £4 million. These factors more than offset the effect of the inclusion of income f
cars by the Dutton-Forshaw Group following its acquisition in December 2002, which increased by £5
£26 million increase in the gains on realisation of venture capital investments by Lloyds TSB Development Capi
also gains of £34 million following the sale of a number of leases by Lloyds TSB Leasing where the tax attribute
by

Opera

	2004	2003	2002
	£m	£m	£m
Administrative expenses:			
Staff:			
Salaries	**1,793**	1,675	1,646
National insurance	**140**	137	128
Pensions	**338**	342	303
Other staff costs	**276**	277	294
	2,547	2,431	2,371
Premises and equipment:			
Rent and rates	**274**	271	268
Hire of equipment	**17**	17	18
Repairs and maintenance	**129**	123	127
Other	**110**	114	109
	530	525	522
Other expenses:			
Communications and external data processing	**439**	411	411
Advertising and promotion	**163**	160	135
Professional fees	**141**	118	107
Provisions for customer redress	**100**	200	
Other	**364**	384	427
	1,207	1,273	1,080
Administrative expenses	**4,284**	4,229	3,973
Depreciation	**589**	633	630
Amortisation of goodwill	**44**	39	33
Total operating expenses continuing operations	**4,917**	4,901	4,636
Discontinued operations		272	277
Total operating expenses	**4,917**	5,173	4,913
Cost: income ratio (%)	**51.4**	52.2	55.3
Cost: income ratio excluding discontinued operations (%)	**51.4**	53.0	56.0

2004 compa

Operating expenses were £256 million, or 5 per cent, lower at £4,917 million compared to £5,173 million in 2
operating expenses in 2003 included £272 million incurred in the businesses sold in that year and, excluding thes
operations from the comparative figures, operating expenses in 2004 were £16 million higher at £4,917 millio
£4,901 m

Administrative expenses, excluding discontinued operations, were £55 million, or 1 per cent, higher at £4,284 mi
to £4,229 million in 2003. Staff costs were £116 million, or 5 per cent, higher. This increase reflected the annu
and an increased charge in respect of profit related and other staff incentive schemes, which in particular reflecte
growth in the Lloyds TSB Group s corporate banking business; the pensions charge was little changed as a
regular cost arising in respect of the Lloyds TSB Group s defined benefit schemes was offset by a reduced
reflecting a lower level of rationalisation activity than in 2003. Other staff costs were also largely unchanged as
restructuring costs was offset by an increase in charges related to outsou

Premises and equipment costs, excluding discontinued operations, were £5 million, or 1 per cent, higher a
compared to £525 million in 2003. Small increases in rent and rates payable, in part reflecting sale and leaseback
years, and higher repair and maintenance costs were partly offset by a decrease in other premises and equipment c
of gains on dispos

Other expenses, excluding discontinued operations, were £66 million, or 5 per cent, lower at £1,207 million. Howe
includes the charge in respect of provisions for customer redress within the Lloyds TSB Group s banking opera
£100 million compared to £200 million in 2003. Excluding this item, other expenses were £34 million, or 3 per
£1,107 million compared to £1,073 million in 2003. Communications and external data processing costs were £28

reflecting the impact of the Goldfish business, acquired at the end of September 2003, and increased telephony cos
and promotion costs were £3 million higher and professional fees rose by £23 million reflecting the cost of as
number of large projects, including Basel and the implementation, in the United Kingdom, of International Finar
Standards from 1 January 2005. Other costs were £20 million lower, reflecting lower operational losses and re
related to the Lloyds TSB Group s clearin

Depreciation, excluding discontinued operations, was £44 million lower due to a reduced charge in respect of
assets reflecting a change in the mix of this business towards longer-term deals, such as aircraft, and the non-
accelerated charge su

Goodwill amortisation, excluding discontinued operations, was £5 million higher at £44 million, compared to
2003, as a result of the acquisition of the Gol

The cost:income ratio improved to 51.4 per cent compared to 52.2 per cent in 2003, or 53.0 per cent excludin
operations from the comp

2003 compa

Total operating expenses increased by £260 million, or 5 per cent, to £5,173 million; of this total, businesses disp
2003 accounted for £272 million compared to £277 million in 2002; excluding discontinued operations, total oper
increased by £265 million, or 6 per cent, to £4,901 million. The impact of acquisitions made in 2002 incre
expenses during 2003 by £110 million, and there was a £200 million provision for cu

Administrative expenses, excluding discontinued operations, increased by £256 million to £4,229 million, largel
£200 million provision for customer redress. Staff costs were £60 million higher at £2,431 million. Salaries were
2 per cent, higher as the impact of the annual pay review and the acquisitions made during 2002 more than offset
underlying reduction in staff numbers of 1,209 (full time equivalent); the cost of bonuses and other perfo
payments remained broadly unchanged. National Insurance costs grew by £9 million reflecting the higher overall
the increase in employers contribution rates which took effect in April 2003. Pension costs increased by £39 n
cent, reflecting a growth in the current service cost as interest rates have fallen and an increase in the level of cas
being made into defined contribution schemes in the UK. Other staff costs fell by £17 million because the impa
use of agency and other contract staff to support a number of major IT development projects and a significant incre
costs, particularly for staff working in the branch network, was more than offset by a reduction in severance ar
following the completion of a number of major restructu

Premises and equipment costs were £3 million higher; there was little change in costs during 2003 as the e
closures offset the impact of acquisitions mac

Other expenses increased by £193 million, largely as a result of the £200 million provision for customer redress ar
in respect of past sales of mortgage endowment and long-term savings products, including the Extra Income &
Advertising expenditure increased by £25 million mainly reflecting promotional expenditure incurred in conn
credit card and mortgage businesses and also wider use of television advertising during 2003; professional fe
£11 million due to greater use of external consultants on a number of major projects. This has been offset b
reduction in other expenses. There has been a reduction in the processing charges paid to iPSL, Lloyds TSB G
joint venture, and reduced credit and debit ca

Depreciation, excluding discontinued operations, rose by £3 million. Operating lease depreciation increased by £1
accelerated charge was recorded following the reassessment of the carrying value of a small number of big ticket
assets; the effect of the acquisition of First National Vehicle Holdings during 2002 was largely offset by the reduc
of the existing portfolios. This was offset by a £16 million reduction in the charge on other fixed assets, mainl
accelerated write-off of certain software development costs in 2002. Goodwill amortisation, excluding disconti
was £6 million higher reflecting the acquisitions made during 2

The cost:income ratio was 52.2 per cent, compared to 55.3 per cent in 2002. Excluding discontinued operations, t
ratio was 53.0 per cent compared to 56.0 pe

Charge for bad and d

	2004	2003	2002
	£m	£m	£m
UK Retail Banking	**673**	594	496
Wholesale and International Banking	**193**	306	489
Central group items		(13)	(7)
Total charge, excluding discontinued operations	**866**	887	978
Discontinued operations		63	51
Total charge	**866**	950	1,029
Specific provisions	**953**	946	965
General provisions	**(87)**	4	64
Total charge	**866**	950	1,029
Charge as % of average lending:	**%**	%	%
Total charge	**0.59**	0.66	0.77
Total charge, excluding discontinued operations	**0.59**	0.66	0.80

2004 compa

The total charge for bad and doubtful debts decreased by £84 million, or 9 per cent, to £866 million compared to £ 2003. However, the charge in 2003 included £63 million in the businesses sold in that year and, excluding thes operations from the comparative figures, the charge for bad and doubtful debts in 2004 was £21 million, or 2 pe £866 million compared to £887 n

The charge within UK Retail Banking was £79 million higher at £673 million compared to £594 million in 2003 respect of personal loans and overdrafts was £43 million higher, principally reflecting volume growth. The charg credit cards was £60 million higher; £37 million of the increase reflected the acquisition of the Goldfish b remainder is attributable to the growth in the size of the lending portfolios. There was a net provisions release of respect of the mortgage business, £24 million higher than in 2003, reflecting the continuing low level of loss rising house prices and historically lov

The charge in respect of Wholesale and International Banking, excluding discontinued operations, was £113 n £193 million compared to £306 million in 2003. There was a reduction in the charge in respect of corporate lendin both lower new charges and some large releases, and a release of £30 million from the general provision that was of the Lloyds TSB Group s exposures in Argentina. These factors more than offset an increased charge in business, as a result of v

The credit in respect of Central group items of £13 million in 2003 was not repeated as the remainder of the Lloy portfolio of medium-term emerging markets debt was sold or repai

Overall, the Lloyds TSB Group s charge for bad and doubtful debts as a percentage of average lending fell compared to 0.66 pe

2003 compa

The total charge for bad and doubtful debts decreased by £79 million, or 8 per cent, to £950 million; busines during 2003 accounted for £63 million of this charge compared to £51 million in 2002; excluding discontinued total charge for bad and doubtful debts decreased by £91 million, or 9 per cent, t

In UK Retail Banking the provisions charge increased to £594 million from £496 million in 2002. There was a n the provisions held against the mortgages portfolio of £18 million compared to a net release of £1 million in 200 improved arrears position and an increase in the value of the property held as security. The charge in respect o increased by £115 million mainly due to an increase in the provisions required against the personal loan portfolios. This is largely attributable to the growth in the size of these portfolios although there was also some arrears levels and an increase in fraud related losses within the personal len

In Wholesale and International Banking, excluding discontinued operations, the provisions charge fell by
£306 million. The charge within Wholesale fell by £78 million as the level of new provisions required ag
customers reduced. In 2002 provisions totalling some £100 million were made against large US exposures
repeated to the same extent during 2003. In the asset finance businesses the provisions charge was largely unc
strong lending growth during 2003 as the high level of voluntary terminations experienced in 2002 were not
2003. Within International Banking, excluding discontinued operations, the charge fell by £105 million mainly
reduction of £79 million in the new provisions required against the Lloyds TSB Group s exposures in Argentina
conditions in that country started to stabilise. There was also a reduction in the charge in other Latin America
specific cases requiring provisions in 2002 wer

Within Central group items there was a net release of provisions of £13 million from the provisions held agains
debt in the emerging markets portfolio. This portfolio has now either been disposed of or the lending h

The Lloyds TSB Group s charge for bad and doubtful debts as a percentage of average lending decreased
compared to 0.77 per cent in 2002; excluding discontinued operations, the charge for bad and doubtful debts as
average lending decreased to 0.66 per cent compared to 0.80 pe

The rate of tax is influenced by the geographic and business mix of profits. In the absence of special factors, Lloy
does not expect the tax rate to vary significantly from the average UK corpo

	2004 £m	2003 £m	2002 £m
UK corporation tax:			
Current tax on profits for the year	**841**	1,079	786
Adjustments in respect of prior years	**(38)**	(72)	12
	803	1,007	798
Double taxation relief	**(58)**	(223)	(129)
	745	784	669
Foreign tax:			
Current tax on profits for the year	**119**	144	216
Adjustments in respect of prior years	**(5)**	(15)	(15)
	114	129	201
Current tax charge	**859**	913	870
Deferred tax	**146**	119	(106)
Associated undertakings and joint ventures	**(1)**	(7)	2
Total charge	**1,004**	1,025	766

2004 compa

The effective rate of tax in 2004 was 28.7 per cent, compared to an effective rate of tax in 2003 of 23.6 p
corporation tax rate in 2004 of 30 per cent. The higher effective rate of tax in 2004 is primarily because the effecti
benefited from the fact that the gain on disposal of The National Bank of New Zealand was exempt from taxatio
partly offset by the benefit, in 2004, of lower effective rates of tax in the Lloyds TSB Group s life and pensions b
an improved performance in the investment portfolios. See note 9 to the finan

2003 compa

The effective rate of tax in 2003 was 23.6 per cent, compared to an effective rate of tax of 29.3 per cent i
corporation tax rate in 2003 of 30 per cent. The lower effective rate of tax in 2003 was primarily due to the gai
The National Bank of New Zealand, which was exempt from taxation, and a reduction in the non-allowable ele
taxes paid creditable against the UK corporation tax charge. This was partly offset by the withdrawal of tax relief
the Lloyds TSB Group qualifying share ownership trust (QUEST) to satisfy Save As

Ec

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

Lloyds TSB Group believes that economic profit instils financial discipline in determining investment decisi
Lloyds TSB Group and that it enables Lloyds TSB Group to evaluate alternative strategies objective
understanding of the value created by each strategy, and then to select the strategy which creates the greatest va
senior executives under Lloyds TSB Group s annual bonus arrangements are partly determined by the achievem

Management changes its estimates of the cost of equity only to reflect significant changes in long-term interest
external market factors which are considered sustainable. The principal factor in estimating the cost of equit
long-term interest rates. If long-term interest rates increase, management will consider raising its estimate of the co
long-term interest rates fall, management will consider reducing its estimate of the cost of equity. The principa
market factors considered are equity risk premium and Lloyds TSB Group s share price volatility relative to the U
as a whole. Any change to the estimated cost of equity will be disclosed. For the last three years, management ha
equity of 9 per cent to reflect the shareholders minimum required rate of return on

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The table below summarises Lloyds TSB Group s calculation of economic profit for the

	2004	2003	2002
	£m	£m	£m
Average shareholders equity	**9,956**	8,460	10,672
Profit attributable to shareholders	**2,421**	3,254	1,790
Less: notional charge	**(896)**	(761)	(960)
Economic profit	**1,525**	2,493	830

The notional charge has been calculated by multiplying average shareholders equity by th

2004 compa

Economic profit decreased to £1,525 million in 2004 compared to £2,493 million in 2003. Profit attributable decreased by £833 million, or 26 per cent, to £2,421 million principally due to the significant profits on disposal c 2003 of £865 million, on which no tax charge arose; the notional charge on average equity was £135 million highe an 18 per cent increase in average equity to £9,956 million compared to £8,460 n

2003 compa

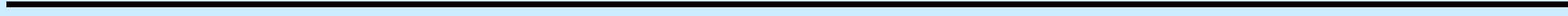
Economic profit increased by £1,663 million from £830 million in 2002 to £2,493 million in 2003. Profi shareholders increased by £1,464 million, or 82 per cent, to £3,254 million; the notional charge on aver £199 million lower, as a result of a 21 per cent reduction in average equity to £8,460 million from £10,672 n

Line of busine

In order to provide a clearer representation of the underlying performance, the results of the Insurance and Invest include investment earnings calculated using longer-term rates of return and annual management charges based fund values. Management separately analyse the difference between these normalised earnings and the ac investment variance) together with the impact of changes in the economic assumptions used in the embedded v The results of the businesses are

	2004	2003	20
	£m	£m	£r
UK Retail Banking	**1,651**	1,471	1,
Insurance and Investments	**773**	565	63
Wholesale and International Banking continuing operations	**1,272**	1,038	1,
Central group items	**(333)**	(12)	36
	3,363	3,062	3,
Changes in economic assumptions	**(2)**	(22)	55
Investment variance	**147**	125	(9
Loss on sale of businesses in 2004	**(15)**		
Discontinued operations in 2003 and 2002		1,183	27
Profit before tax	**3,493**	4,348	2,

Comparative figures for 2003 and 2002 have been restated to reflect changes in the Lloyds TSB Group s se following the introduction, in 2004, of the management of the Lloyds TSB Group s distribution channels as p other changes in internal transfer pricing arrangements. The loss on sale of businesses in 2004 and discontinue 2003 and 2002 relate to the Wholesale and International Banking segment. The discontinued operations in 2003 the Lloyds TSB Group s operations in New Zealand, Brazil and Fran



UK R

	2004	2003
	£m	£m
Net interest income	**3,198**	3,137
Other income	**1,639**	1,533
Total income	**4,837**	4,670
Operating expenses	**(2,513)**	(2,583)
Trading surplus	**2,324**	2,087
Provisions for bad and doubtful debts	**(673)**	(594)
Share of results of joint ventures		(22)
Profit before tax	**1,651**	1,471
Profit before tax, before provisions for customer redress	**1,751**	1,671
Cost:income ratio	**52.0%**	55.3%
Total assets (year-end)	**£101,615m**	£90,541m
Total risk-weighted assets (year-end)	**£60,502m**	£54,119m

Restated, as exp

2004 compa

Profit before tax from UK Retail Banking increased by £180 million, or 12 per cent, to £1,651 millio £1,471 million in 2003. However, comparisons of performance are distorted by the level of the charge ma provisions for customer redress, which was £100 million in 2004 compared to £200 million in 2003; excluding t for customer redress, profit before tax in UK Retail Banking increased by £80 million, or 5 per cent to £1,75 £1,671 m

Total income rose by £167 million, or 4 per cent, to £4,837 million compared to £4,670 million in 2003. Net inter £61 million, or 2 per cent, higher at £3,198 million, compared to £3,137 million in 2003. Average interest-earn £10,875 million higher than in 2003. There was strong growth in mortgage lending during the year; gross new mo was £26,251 million, compared to £24,151 million in 2003, representing a market share of 9.0 per cent. Net lending of £9,315 million was 12 per cent higher than the £8,283 million achieved in 2003 and represented a 9.2 per cent. Mortgage balances outstanding increased by 13 per cent to £80,065 million. There was also good gro loans and overdrafts, where average balances were £1,141 million higher and in card services, where average £1,424 million higher, in part reflecting the acquisition of the Goldfish business at the end of September 200 growth generated an additional £387 million of net i

The net interest margin, however, fell by 41 basis points, reducing net interest income by £326 million, re continuing competitive pressures in mortgages and in other retail lending products such as overdrafts and

Other income was £106 million, or 7 per cent, higher at £1,639 million compared to £1,533 million in 200 reflects the acquisition of the Goldfish business in 2003, as a result of which the 2004 figures include a full ye compared to only three months in 2003. This lead to a significant increase in card fee income, up £81 million ove offset by a related increase in card fees payable. Card fee income also grew as a result of organic growth in t Group s existing business and a review of charging structures. Current account fees within UK Retail Banking higher as a result of continued growth in added value account fees and an increased level of returned cheque fe also increased management fees with the UK Wealth Management business, as a result of high

Operating expenses were £70 million, or 3 per cent, lower at £2,513 million compared to £2,583 million in 2 excluding the effect of the provisions for customer redress, operating expenses were £30 million, or 1 per £2,413 million compared to £2,383 million in 2003. The full year impact of the Goldfish acquisition and the effec awards was partly offset by a lower level of bonuses in some areas and staff reductions, particularly in the distrib staff numbers at 31 December 2004 were 43,732, down 563 from 44,295 at the end of 2003. The cost:income rat 52.0 per cent from 55.3 per cent in 2003. Excluding the charges in respect of provisions for customer redress of 2004 and £200 million in 2003, the cost:income ratio improved to 49.9 per cent in 2004 compared to 51.0 pe

Provisions for bad and doubtful debts were £79 million, or 13 per cent, higher at £673 million compared to £594 n
Of this increase, £37 million is attributable to the full year impact of the Goldfish business and the remainder r
growth in the lending portfolios during 2004. Personal loan balances increased by £1,126 million, or
£10,745 million over 2004 and credit card balances increased by £792 million, or 12 per cent, to £7,519 million.
charge as a percentage of average lending for personal loans and overdrafts fell to 4.20 per cent, from 4.25 pe
while the charge in the credit card portfolio increased to 3.42 per cent, from 3.19 per cent in 2003. In the mortg
there was a net provision release of £42 million, reflecting the continuing low level of losses in a climate of risin
and historically low interest rates. The provisions charge as a percentage of average lending was 0.71 per cen
0.72 per cent in 2003, and the overall arrears position remain

---

2003 compa

Profit before tax from UK Retail Banking decreased by £77 million, or 5 per cent, to £1,471 million, compared to
in 2002. However, the results in 2003 were adversely affected by a £200 million provision for remediati
customers in respect of past sales of mortgage endowment and long-term savings products, principally the E
Growth Plan; adjusting for this provision there was a £123 million or 8 per cent g

Total income increased by £213 million, or 5 per cent, to £4,670 million. Net interest income increased by £247 m
cent, to £3,137 million as continued growth in lending and deposit balances added £379 million to net interes
offset by a reduction of £132 million caused by a 19 basis point reduction in the net interest margin. There wa
growth in the personal loan and credit card businesses with outstanding balances increasing by 9 per cent a
respectively over the year; after taking account of the impact of the acquisition of the Goldfish Bank portfoli
personal loan balances had increased by 10 per cent and credit card balances by 36 per cent by the end of Decem
the twelve months to 31 December 2003, mortgage balances outstanding increased by 13 per cent to £70,750 mil
lending increased to £8,283 million from £5,889 million; this represented an improved market share of 8.2 per c
remained below the Lloyds TSB Group s market share of outstan

The net interest margin was 19 basis points lower. There was margin contraction in the mortgages business
pressures caused a move to discounted and finer margin products; the margin on retail savings products also fell a
of interest rate falls was not passed on to customers and the benefit of low interest and interest-free curren
reduced. This was partly offset by an improved margin on personal loans, which benefited from lower

Other income decreased by £34 million to £1,533 million. Fees earned from current account activity grew
reflecting increased volumes of added value accounts and higher monthly charges; returned cheque fees also i
number of returned items rose. There was also improved income from credit and debit card transactions, whic
£46 million, mainly as a result of a growth in interchange income, higher overseas use commissions and ot
increases, however, were more than offset by a reduction in distribution commissions received for the sale of insu
through the branch network and higher fees payable in respect of the credit card business, mainly reflecting volu
the cost of customer incentives, and increased package costs incurred on the added value account range as volume
growth in fee income in the mortgages business, as lending volumes have grown and charges increased, has bee
higher cost of custo

Operating expenses were £181 million, or 8 per cent higher, at £2,583 million compared to £2,402 million in 200
the £200 million provision for customer redress; if this is excluded operating expenses fell by £19 million. There v
in salary and pension costs, largely reflecting the effects of the annual pay review and falling interest rate
providing post-retirement benefits, and the increased cost of agency staff and other contractors which have b
extent by lower severance and related costs following the completion of a number of major restructuring initiativ
expenditure also increased particularly in the credit card and mortgage businesses and there was wider use of T
however there was a reduction in the level of operational losses and lower clearings costs. The cost:income ratio
55.3 per cent compared to 53.9 per cent in 2002; however, if the £200 million provision for customer redress is
costs in 2003, the cost:income ratio improved t

Bad debt provisions increased by £98 million to £594 million in 2003 compared to £496 million in 2002 as a resul
in the provisions required against the personal lending and credit card portfolios mainly reflecting volume growth
but also some deterioration in the arrears levels within the personal loan portfolio and an increase in fraud relate
was a net release of £18 million from the provisions held against the mortgage portfolio in 2003 compared to
£1 million in 2002, as the arrears position has improved and the value of the underlying security increased.
charge as a percentage of average lending for personal loans and overdrafts increased to 4.25 per cent in 2003 fro
in 2002, while the charge in the credit card portfolio decreased to 3.19 per cent in 2003 from 3.52 per cent the

The Lloyds TSB Group s share of the results of its joint venture operations in 2003 was a loss of £22 mill
£11 million in 2002. Following the purchase by the Lloyds TSB Group of the personal loan and credit card portfol
Bank, the venture began to wind down its remaining business resulting in increased losses from asset write-dow

Insurance an

Lloyds TSB Group s insurance and investments activities comprise the life, pensions and unit trust businesses of S and Abbey Life, general insurance underwriting and broking, and Scottish Widows Investme

	2004	2003	2002
	£m	£m	£m
Net interest income	**99**	81	74
Other income	**1,170**	981	1,084
Total income	**1,269**	1,062	1,158
Operating expenses	**(272)**	(261)	(291)
Trading surplus	**997**	801	867
General insurance claims	**(224)**	(236)	(229)
Operating profit	**773**	565	638
Changes in economic assumptions	**(2)**	(22)	55
Investment variance	**147**	125	(943)
Profit (loss) before tax	**918**	668	(250)

Restated, as exp

2004 com

The operating profit from Insurance and Investments, calculated as explained under Operating and financial revie Line of business information Summary increased by £208 million, or 37 per cent, to £773 million i £565 n

Total income was £207 million, or 19 per cent, higher at £1,269 million compared to £1,062 million in 2003. Net i of £99 million was £18 million, or 22 per cent, higher than in 2003 reflecting increased cash balances held wit insura

Other income was £189 million, or 19 per cent, higher at £1,170 million in 2004 compared to £981 million in 2003 long-term assurance business, excluding the effects of changes in economic assumptions and the investmen £165 million higher as a result of improved profitability from new and existing business and a reduced charg provisions for customer redress (£12 million in 2004 compared to £100 million in 2003). General insuranc premiums were £19 million higher as reduced premiums on the health insurance book, which is being run down, offset by increased income from home contents and asset finance creditor insurance. Reduced levels of retrospec insurance broking commissions lead to a decrease of £18 million in general insurance broking commissions market conditions lead to increases in asset manag

Operating expenses were £11 million, or 4 per cent, higher at £272 million in 2004 compared to £261 millio reflected higher staff costs, largely as a result of annual pay reviews, and some increase in strategic cons

General insurance claims of £224 million in 2004 were down £12 million, or 5 per cent, from £236 million in 2 favourable weat

2003 com

The operating profit from Insurance and Investments, calculated as explained under Operating and financial revie Line of business information Summary , fell by £73 million, or 11 per cent, to £565 million from £6

Total income was £96 million, or 8 per cent lower, at £1,062 million as a £103 million fall in other income mo modest improvement in net interest income of £7 million. Other income was £981 million compared to £1,084 n Income from long-term assurance business, excluding the effects of changes in economic assumptions and variance, was £86 million lower. Income from existing business was lower as the benefit from experience variance assumption changes reduced by £168 million, reflecting updated assumptions in respect of staff costs to support ex and benefits recognised in 2002 from changes in the assumed shareholder tax rate and from the valuation of unmo which have not been repeated; the expected return increased by £10 million. There was also a reduction of normalised investment earnings reflecting lower market rates of return. This has been partly offset by a £105 milli

provisions for customer redress, see Operating and financial review and prospects Risk management Custo
Customer remediation payments , and by the £41 million increase in new busin

Insurance broking income fell by £43 million reflecting lower levels of creditor insurance and an increased all
clawback of commissions by the insurance underwriters due to the early settlement of loans. There was also
income from unit trust and asset management activities as a result of lower average fund values and the continue
the long-term savings market. This has been partly offset by a £49 million increase in general insurance premi
from the sale of home contents insurance has improved, helped by the buoyant h

Operating expenses decreased by £30 million, or 10 per cent, to £261 million. There was a £42 million reduct
related to the restructuring of the Scottish Widows business and this has more than offset the effect of inflationa

General insurance claims increased by £7 million to £236 million, as the effect of the increase in the size of th
largely offset by a reduction in claims caused by the generally mild weat

An

The operating profit of the life, pensions and unit trust businesses is analysed in the following table. The basis of

The life and pensions results are split into

New business income: this represents the value recognised at the end of each financial year from the new b
during that year after taking into account the cost of establishing technical provisions and reserves. This is s
the significant costs of acquiring that new business, which are shown separately as Distribution costs .
Distribution costs: the costs of acquiring the new business generated in the year. These comprise the cost of
products through Lloyds TSB Bank s branch network; the commissions paid to independent financial advi
related costs of sales through this channel; and the costs of other direct sales channels.
Existing business: this comprises the following elements:

the expected return arising from the unwinding of the discount applied to the expected cash flows at the beg
year;
experience variances caused by differences between the actual experience during the year and the expected
the effects of changes in assumptions, other than economic assumptions, and other items; and
provisions for customer redress.
Development costs: these costs represent the investment made during the year in Sandler products and depo
developments, and the development of e-commerce relationships with IFAs.
Investment earnings: this represents the expected investment return on both the net tangible assets and the v
shareholder s interest in the long-term business account, based upon the economic assumptions made at th
the year.
Unit trust income is shown before the acquisition costs of new business which are separa

	2004	2003	2002
	£m	£m	£m
Life and pensions new business income	**419**	396	313
Life and pensions distribution costs	**(231)**	(241)	(199)
New business contribution	**188**	155	114
Existing business:			
Expected return	**300**	283	273
Experience variances	**(41)**	(16)	(1)
Assumption changes and other items	**(39)**	(75)	78
	220	192	350
Provisions for customer redress	**(12)**	(100)	(205)
Development costs	**(11)**	(13)	
Investment earnings	**167**	153	214
Operating profit (life and pensions)	**552**	387	473
Unit trusts	**75**	62	92
Unit trust distribution costs	**(22)**	(38)	(44)

Profit before tax (unit trusts)	**53**	24	48
Operating profit (life, pensions and unit trusts)	**605**	411	521
General insurance	**160**	153	117
Scottish Widows Investment Partnership	**8**	1	
Operating profit	**773**	565	638
Changes in economic assumptions	**(2)**	(22)	55
Investment variance	**147**	125	(943)
Profit (loss) before tax	**918**	668	(250)
New business margin (life and pensions)	**28.6%**	25.8%	19.2%

Restated, as exp

The table below shows the level of new business premium income for the life and pensions business and
Management monitor these figures because they provide an indication of both the performance and the pro

	2004	2003	2002
	£m	£m	£m
New business premium income and unit trust sales			
Regular premiums	**342.6**	337.9	286.3
Single premiums	**3,141.0**	2,638.3	3,089.0
Unit trusts:			
Regular premiums	**32.6**	41.0	71.5
Single premiums	**538.4**	907.3	1,009.5
Total unit trusts	**571.0**	948.3	1,081.0

Weighted sales is a UK insurance industry standard which measures the new business volumes; the weighting is
regular premium policies to reflect the long-term nature of these contracts. There are four main distribution chann
of Lloyds TSB Group s life, pension and unit trust products and the table below shows the relative imp

	2004	2003	2002
	£m	£m	£m
Weighted sales (regular + 1/10 single):			
Life and pensions	**656.7**	601.7	595.2
Unit trusts	**86.4**	131.7	172.4
Life, pensions and unit trusts	**743.1**	733.4	767.6
Weighted sales by distribution channel:			
Branch network	**238.9**	278.8	350.6
Independent financial advisers	**431.6**	391.6	335.4
Direct	**72.2**	61.6	67.9
Other, including International	**0.4**	1.4	13.7
Life, pensions and unit trusts	**743.1**	733.4	767.6

Life, pensions a

2004 com

Operating profit from life, pensions and unit trusts, calculated as explained under Operating and financial revie Line of business information Summary increased by £194 million, or 47 per cent, to £605 million in £411 million in 2003; much of this improvement reflected the lower charge in respect of provisions for cust £12 million in 2004, compared to £100 million in 2003. Excluding the charge in respect of provisions for cu operating profit from life, pensions and unit trusts increased by £106 million or 21 per cent to £617 million in 20 £511 m

Within the life and pensions businesses, new business contribution increased by £33 million or 21 per cent to £18 business income was £23 million or 6 per cent higher reflecting a 9 per cent growth in the weighted sales of li products, driven in particular by higher sales of investment products such as the Flexible Option Bond and th Bond. Distribution costs at £231 million were £10 million lower than in 2003, largely as a result of a change i together with the non-repetition of short-term, fine margin, asset finance related business in the last quarter of business margin, defined as new business contribution divided by weighted sales, was 28.6 per cent compared to 2

Regular premium sales of £342.6 million were 1 per cent higher than in 2003 and represented 52 per cent of total from life and pensions business, compared to 56 per cent in 2003. Sales of regular premium pensions £25.3 million higher, with growth in sales through independent financial advisers and direct channels, as a re investment in this business and the promotion of specially targeted products more than offsetting a fall in sa branch network. Regular life product sales, however, were £18.9 million lower, largely as a result of competito and the impact of some slow down in activity in the mo

Sales of single premium life and pensions products were £502.7 million, or 19 per cent, higher at £3,141.0 millio £2,638.3 million in 2003. There was substantial growth in single premium life sales, reflecting the success of th Bond and the Flexible Option Bond, which have been relaunched and made the subject of increased marketing annuity products were down due to the decision to withdraw from the with-profits annuity market in 2004, only increased sales of the Income Drawdown product. Single premium pension sales were 6 per cent higher, as a sales of group pension products through the independent fina

The expected return from existing business was £17 million, or 6 per cent, higher at £300 million compared to 2003; the increase reflects the benefit of new business sales by Scottish Widows in 2003 and the effect of the embedded value discount rate. The impact of experience variances and actuarial assumption changes £80 million, £11 million better than the charge of £91 million in 2003; adverse lapse and expense assumption ex more than offset by the non-repetition of the impact in 2003 of the capitalisation of pension contributions. The ch of provisions for customer redress was significantly lower at £12 million in 2004, compared to £100 m

Development costs were £11 million in 2004, compared to £13 million in 2003, and investment earnings were 9 per cent, higher at £167 million in 2004 compared to £153 million in 2003. The increase in investment earni increased value of the investment portfolio at the start of 2004 and the increase in the normalised

Operating profit from unit trusts increased significantly from £24 million in 2003 to £53 million in 2004 as a re increase in profit before distribution costs and a reduction in dis

Unit trust profit before distribution costs was £13 million higher at £75 million. Overall weighted sales of unit tr £86.4 million, were £45.3 million, or 34 per cent, lower than the £131.7 million achieved in 2003. Regular prem down 20 per cent at £32.6 million and single premium sales were 41 per cent lower at £538.4 million. The larg unit trust sales was within the branch network reflecting a change in mix of sales and the reduced number of au following a revision of the Lloyds TSB Group s suitability rules. Unit trust sales via independent financial advis flat and sales by direct channels increased due to success in retaining customers with maturing products and suc Corporate OEIC s. The fall in sales volumes lead to a reduction in new business income but this was more increase in income from existing business, as the improved stock market performance over 2004 has lead to highe with lower incentive payments and other cost savings. Unit trust distribution costs were £16 million, or 42 pe £22 million compared to £38 million in 2003; this decrease reflects, in particular, lower commission payment network following the sharp fall in sales v

2003 com

The operating profit of the life, pensions and unit trust businesses in 2003 fell by £110 million, or 21 per cent, t
from £521 n

New business income increased by £83 million, or 27 per cent, to £396 million. Weighted sales of life and per
increased by 1 per cent as sales volumes were affected by weak demand as consumer confidence in long-term sa
remained low. However there was a further change in the product mix towards higher margin regular prem
policies with the emphasis upon sales of lower margin single premium life products

The new business margin, defined as new business contribution divided by weighted sales, improved to 25.8 per
to 19.2 per cent in 2002. The increase in distribution costs was also higher than sales volumes; these costs were
or 21 per cent, to £241 million partly reflecting the increase in the proportion of sales made through the comp
expensive independent financial adviser channel and also the higher levels of commission payable on sales of the

Regular premium sales amounted to £337.9 million, or 56 per cent of total life and pensions weighted sale
£286.3 million, or 48 per cent of the total in 2002, an increase of £51.6 million. Weighted sales of regular pr
products increased by £24.0 million as improved sales through the IFA channel, reflecting both Scottish Wid
initiatives and investment in this channel, more than offset a reduction in sales through the branch network w
affected by weak demand. Sales of regular premium life products increased by £27.6 million mainly as a result of
term assurance and savings products; sales of mortgage-related products providing life cover on repayment mortg
to improve, reflecting the buoyant housing market and the resulting strong growth in mo

Sales of single premium products fell by £450.7 million, or 15 per cent, from £3,089.0 million in 2002 to £2,6
2003. Single premium life product sales decreased by £685.1 million as a result of further reductions in sale
bonds due to low stock market values and adverse media comment and the closure of an investment trust in the fi
due to a lack of suitable quality investment opportunities. This was partly offset by strong growth in single pr
business; sales rose by £218.9 million or 21 per cent as a result of the improved performance of stakeholder pe
Sales of single premium annuity business increased by £15.5 million, or 3 per cent, following pricing ch

Unit trust sales were £132.7 million, or 12 per cent, lower at £948.3 million compared to £1,081.0 million in 200
continued to view investments in equity-based product

Weighted sales of life, pensions and unit trust products were £733.4 million compared to £767.6 million in 2002.
channel, sales through the branch network fell by £71.8 million, or 20 per cent, to £278.8 million mainly reflecting
reductions during 2003 in sales of single premium life and pensions products and unit trusts. Sales of regular pre
were broadly unchanged as initiatives within the branch network resulted in an increase in term assurance sales,
fall in sales of pension products. Branch network sales during 2003 were affected by significant restructuring
personal sector regulated sales force, to reflect lower levels of new business and improved cost efficiency, whi
reduction in its size of almost one third. Direct sales decreased by £6.3 million as a result of lower single premiu
in difficult market conditions. However, sales through the IFA channel improved by £56.2 million, or
£391.6 million with particularly strong growth in regular premium products reflecting the benefits of the invest
this channel in 2002 and earlier. In the 2003 IFA Service Awards, Scottish Widows achieved a five-star rating i

Existing business profits fell by £158 million, or 45 per cent, to £192 million from £350 million in 2002. With
return a reduction of £39 million reflecting a reduction in the value of in-force business and a lower discount rat
lower restructuring costs in 2003. There was a reduction of £168 million in the benefits from changes in actuari
and experience variances. It is common practice for life assurance companies to regularly review the detailed as
support the embedded value calculations having regard to recent experience. In 2003 there was a charge of £75 mi
of actuarial assumption changes compared to a credit of £78 million in 2002, reflecting the capitalisation of p
contributions, following their recommencement in 2003, within the Lloyds TSB Group s embedded value
benefits in 2002 from revisions to the assumed shareholder tax rate and the valuation of unmodelled products
been repeated. Experience variances were £15 million worse as a result of a deterioration in lapse and pe

The decrease in existing business profits was partly offset by a £105 million reduction in the level of additi
required for redress payment

Normalised investment earnings fell by £61 million, or 29 per cent, to £153 million from £214 million in 20
reduction in the expected rates of return in the low interest rate environ

Unit trust profits were £24 million compared to £48 million in 2002. Income in the unit trust business is derived f
charges at the point of sale and annual management fees which are calculated as a percentage of the unit trust fund
unit trust profit before distribution costs fell by 33 per cent following the reduction in weighted average sales, wh
cent lower, and a fall in income reflecting lower annual management charges as the depressed stock markets caus
to reduce. Unit trust distribution costs fell by 14 per cent as a result of the fall in

Gen

	2004	200
	£m	£m
Premium income from underwriting:		
Creditor	**114**	104
Home	**442**	410
Health	**27**	43
Reinsurance premiums	**(29)**	(22
	554	535
Commissions from insurance broking:		
Creditor	**377**	351
Home	**30**	30
Health	**19**	16
Other	**160**	207
	586	604
Operating profit	**160**	153
Investment variance	**8**	13
Profit before tax	**168**	166

Restated, as exp

2004 com

The operating profit, calculated as explained under Operating and financial review and prospects Line of bus
Summary from general insurance was £160 million, an increase of £7 million or 5 per cent from £153

Premium income for underwriting was £19 million, or 4 per cent, higher at £554 million compared to £535 m
Creditor insurance premiums were 10 per cent higher, as a result of increased sales of the asset finance loan prote
in part underwritten by the general insurance operations, and home premiums were 8 per cent higher followi
premium rates and improved retention. Premium income from health insurance decreased from £43 mil
£27 million in 2004 as a result of the continuing run down of the book. Reinsurance premiums increased b
£29 million, in part due to growth in the underwritten pro

Broking commissions decreased by £18 million, or 3 per cent, to £586 million in 2004 compared to £604 m
Creditor insurance commissions were £26 million higher following renegotiation of rates with external unde
increase in average loan and credit card balances insured; business loan protection income was lower follov
adjustments on terminated policies. Home commissions were flat and Health commissions were £3 million higher
Other commissions decreased by £47 million to £160 million in 2004 from £207 million in 2003 following a red
share income from the unusually high

Investment income was £8 million higher, following increased interest rates as the majority of the investment p

Distribution commissions payable to the branch network were largely unchanged; the proportion of sales sourc
network was lower than in 2003, but this has been largely offset by the passing on of the benefit of improved profi
agreed with third part

General insurance claims, at £224 million, were £12 million, or 5 per cent, lower than £236 million in 2003. C
policies were lower due to the favourable weather conditions in 2004 and health claims have declined as this boo
The underwriting claims ratio improved from 42.4 per cent in 2003 to 38.4 pe

2003 com

The operating profit from general insurance in 2003 was £153 million, an increase of £36 million, or 31 per cen

Premium income from underwriting increased by £49 million, or 10 per cent, to £535 million as a result of co
growth in income from the sale of home insurance products which rose by £60 million. An increase in average su
more than offset a decline in sales volumes, particularly through the IFA channel, as commission rates became
sales volumes started to improve in the final quarter of 2003 as commissions payable were increased. Cre
premiums were £3 million lower and reinsurance premiums increased by £7 million due to increased rates in
market and higher underwri

Commission income from general insurance broking fell by £43 million reflecting a £75 million reduction i
creditor insurance products as personal loan sales volumes within the branch network started to slow and a
£35 million was made against the clawback of commissions by the insurance underwriters as loans are settled earl
sales of home insurance products fell by £14 million due to more competitive offers from other market part
factors have been partly offset by a £47 million improvement in other commissions reflecting a significant incre
of retrospective commissions receivable from underwriters as the favourable economic conditions hav
profitability of the p

Investment income was £9 million higher at £54 million, compared to £45 m

General insurance claims were £7 million higher at £236 million compared to £229 million in 2002. The claims
45.7 per cent to 42.4 per cent reflecting the beneficial effect of generally mild weather conditions although th
increase in subsidence related claims in the secon

Operating expenses and commissions payable to the branch network were £37 million lower overall. The pro
underwriting and broking sales sourced through the network was lower in 2003 than in 2004, there were als
advertising and severance costs and these factors more than offset the impact of annu

Changes in economi

Lloyds TSB Group accounts for the value of the shareholder s interest in the long-term assurance business usi
value basis of accounting. The embedded value comprises the net tangible assets of the life assurance subsidiaries
value of the in-force business. The present value of the in-force business is calculated by projecting future surpluse
cash flows attributable to the shareholder and discounting the result at a rate which reflects the sharehold

When projecting future surpluses and other net cash flows Lloyds TSB Group makes a series of assumptions a
economic conditions. In order to maintain comparability with other listed insurers in the UK, the Lloyds TSB
these assumptions at each

The economic assumptions have been revised at 31 December 2

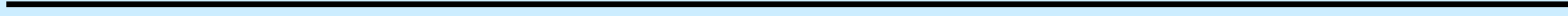
	2004	2003	2002
	%	%	%
Risk-adjusted discount rate (net of tax)	**7.40**	7.60	7.35
Return on equities (gross of tax)	**7.17**	7.45	7.10
Return on fixed interest securities (gross of tax)	**4.57**	4.85	4.50
Expenses inflation	**3.76**	3.80	3.30

The revised assumptions have resulted in a net charge to the profit and loss account in 2004 of £2 million (20

Invest

In accordance with generally accepted accounting practice in the UK, it is Lloyds TSB Group s accounting po
investments comprising the reserves held by its life companies at market value. The reserves held to support t
business of Scottish Widows are substantial and changes in market values cause significant volatility in the Gro
value earnings, which are beyond the control of management. Consequently, in order to provide a clearer repres
underlying performance, the results of the life and pensions business are separately analysed to show an o
including investment earnings calculated using longer-term investment rates of return, and annual management ch
unsmoothed fund values. The investment variance represents the difference between the actual investment retur
investments backing shareholder funds and the expected return based upon the economic assumptions made at th
the year, and the effect of these fluctuations on the value of in-force business. The effects of other chang
circumstances beyond the control of management are also reflected in the investment variance. A similar app
adopted for Lloyds TSB Group s general ins

In 2004, there was a positive investment variance of £147 million (2003: positive £125 million, 2002: negativ
reflecting increases in stock market values during 2004; the FTSE All-Share index increased by 9 per cent in 2
with a 17 per cent increase in 2003. The benefit of improving stock markets was limited by the lower equitie
long-term assurance funds and a reduction in the rates of return on fixed intere



Wholesale and Internat

	2004	2003	2002
	£m	£m	£m
Net interest income	**1,966**	1,875	1,970
Other income	**1,641**	1,561	1,520
Total income	**3,607**	3,436	3,490
Operating expenses	**(2,090)**	(2,048)	(1,939)
Trading surplus	**1,517**	1,388	1,551
Provisions for bad and doubtful debts	**(193)**	(306)	(489)
Amounts written off fixed asset investments	**(52)**	(44)	(57)
	1,272	1,038	1,005
(Loss) profit on sale of businesses	**(15)**	865	
Trading results of businesses sold in 2003		318	279
Profit before tax	**1,257**	2,221	1,284
Cost:income ratio*	**57.9%**	59.6%	55.6%
Total assets (year-end)	**£112,968m**	£101,286m	£117,06
Total risk-weighted assets (year-end)	**£71,143m**	£62,792m	£73,000

Restated, as exp

* Excluding trading results of discontinued operations; see note 2 to the fina

2004 com

Profit before tax from Wholesale and International Banking in 2004 was £964 million, or 43 per cent, lower at compared to £2,221 million in 2004. However, comparisons are distorted by the substantial profit on disposal c £865 million in 2003, compared to a loss of £15 million in 2004 and, in 2003, the trading results of the busines year. Adjusting to exclude profits and losses on sale of businesses and the results of discontinued operations, prof 2004 was £234 million, or 23 per cent, higher at £1,272 million compared to £1,038 n

Excluding discontinued operations, net interest income was £91 million, or 5 per cent, higher at £1,966 millio £1,875 million in 2003. Average interest-earning assets were £8,095 million higher than in 2003; however much relates to the growth in fine margin reverse repurchase agreements held for liquidity purposes. Excluding these bal interest-earning assets, excluding discontinued operations, were £578 million higher, reflecting growth in Wholesa by some reductions in the International businesses. Average balances in the asset finance business were £1,314 mi a result of strong lending growth, and corporate lending balances grew by £1,536 million; however, balar Treasury function fell. The net interest margin was 12 basis points lower, again largely reflecting the growth in vo reverse repurchase agreements. Excluding the average reverse repurchase agreement balances from the calc interest margin was 10 basis points higher reflecting margin widening in corporate banking and asset finance, growth has been in the higher margin consumer portfolios, only partly offset by reductions in business competitive pressures have lead to a tightening of le

Other income, excluding discontinued operations, was £80 million, or 5 per cent, higher at £1,641 millio £1,561 million in 2003. There was a £50 million increase in gains on the sale of assets, largely the realisation of gains, and improved dealing profits, particularly in respect of currency transactions entered into on behalf of cor customers. Increased activity lead to higher levels of corporate banking lending and other fees and to h registration income. Overall operating lease rental income was lower, due to a change in mix towards traditiona asset finance business, and a reduction in income also arose following the rationalisation of the Lloyds TSB deale

Operating expenses, excluding discontinued operations, were £42 million, or 2 per cent, higher at £2,090 millio £2,048 million in 2003. Staff costs were higher as a result of business growth, particularly in corporate banki awards and higher levels of performance related bonuses. Operating lease depreciation was £45 million lower, as change in mix of business in asset finance, and there were cost reductions following the rationalisation of t Group s m

Provisions for bad and doubtful debts, excluding discontinued operations, were £113 million, or 37 pe £193 million compared to £306 million in 2003. The charge within the asset finance operations increased in lin volumes but this was more than offset by a reduction in corporate banking, where the improved business envir several large releases, and in International following the release of £30 million from the general provision t

relation to the Lloyds TSB Group s exposu

Amounts written off fixed asset investments were £8 million, or 18 per cent, higher at £52 million compared to
2003 as a result of growth in the venture ca

2003 com

The profit before tax of Wholesale and International Banking increased by £937 million to £2,221 million in 20
profit on the disposal of businesses in New Zealand, Brazil and France of £865 million. If this gain and the tradin
businesses disposed of in 2003 are excluded there was an underlying improvement in profit from continuin
£33 million to a

Total income from continuing operations decreased by £54 million to £3,436 million. Net interest income fell by
£1,875 million. Within the Wholesale businesses net interest income fell by £74 million reflecting the implem
Competition Commission s SME report remedies: the provision of interest-bearing current accounts to small bu
has caused the margin to fall by 24 basis points, reducing net interest income by £169 million. There was also lowe
treasury activities as the interest rate cut in the early part of 2003 and flattening of the yield curve reduced marke
This more than offset the effects of strong growth within the asset finance operations which resulted in an increase
income of £99 million; average asset finance balances increased by £991 million, mainly due to the continu
consumer credit in the UK, and the margin widened by 48 basis points. There was also an increase in income f
finance transactions following the growth in balances during 2002. In International Banking there was a decrease
income from continuing operations of £21 million; net interest income fell as balances were reduced, partic
America, as the Lloyds TSB Group sought to reduce its exposure to th

Other income from continuing operations increased by £41 million, or 3 per cent, to £1,561 million as a result of
increase within Wholesale. This principally reflected the inclusion of income from the sale of cars by the Dutton-F
following its acquisition in December 2002, increasing income by £51 million, and gains of £34 million on the sa
of leases by Lloyds TSB Leasing where the tax attributes could be used by the purchasers. There were also increa
of gains realised on the sale of venture capital investments and fees from corporate, asset finance and factoring act
this was partly offset by a £36 million increase in commissions paid to motor dealers by the asset finance opera
the growth in levels of new business, and lower income from company registration activities. In International
income from continuing operations fell by £64 million mainly as a result of a £28 million reduction in profits fro
leaseback of premises. There was also a reduction in fund management fees and lower income from Argentina
activit

Operating expenses from continuing operations increased by £109 million or 6 per cent. In Wholesale there was
£110 million; the inclusion of the Dutton-Forshaw Group accounted for £44 million of this increase. Within Corp
there was a £39 million increase in costs. Operating lease depreciation increased by £19 million as an accelera
recorded following the reassessment of the carrying value of a small number of operating lease assets and there w
and risk management costs, although this was partly offset by lower reorganisation costs. There were smaller inc
areas of Wholesale principally relating to staff and consultancy costs to support a number of major projects. I
Banking operating expenses from continuing operations reduced

The provisions charge from continuing operations fell by £183 million to £306 million. The charge within W
£78 million as the level of new provisions required against corporate customers reduced. In 2002 provisions
£100 million were made against large US exposures which were not repeated to the same extent during 2003. In th
business the provisions charge was largely unchanged despite strong lending growth during 2003, as the high lev
terminations experienced in 2002 were not repeated during 2003. Within International Banking the charge fr
operations fell by £105 million mainly as a result of a reduction of £79 million in the new provisions required aga
TSB Group s exposures in Argentina as the economic conditions in that country started to stabilise. There was al
the charge in other Latin American operations as specific cases requiring provisions in 2002 wer

Amounts written off fixed asset investments fell by £13 million to £44 million reflecting lower charges against
and venture capit

In 2003, a profit of £865 million arose on the sale of The National Bank of New Zealand, substantially all of Lloy
businesses in Brazil and its French fund management and private banking businesses. The trading profits of those
discontinued operations, in 2003 were £39 million or 14 per cent higher at £318 million, compared to £279 millio
result of a £46 million increase in income (particularly reflecting volume growth and favourable exchange rate
New Zealand, more than offsetting some margin erosion) coupled with a £5 million reduction in operating e
favourable movements more than offset a £12 million increase in bad d

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

Restated, as exp

2004 com

The four independent Lloyds TSB Foundations support registered charities throughout the UK that enable peop the disabled and disadvantaged, to play a fuller role in society. The Foundations receive 1 per cent of the Lloy pre-tax profit after adjusting for gains and losses on the disposal of businesses and pre-tax minority interests, avera years, instead of the dividend on their shareholdings. In 2004, the Lloyds TSB Group accrued £31 million (2003: £ payment to the Lloyds TSB Foundations. See note 40 to the financ

Other finance income represents income from the expected return on the Lloyds TSB Group s pension fund asse for the unwinding of the discount on the pension fund liabilities; the increase of £5 million, from £34 mil £39 million in 2004, represents a £68 million increase in the expected return on assets, as a result of improved m the end of 2003, largely offset by a £63 million increase in the interest cost, reflecting the increase in liabili

Lloyds TSB Group s remaining portfolio of emerging markets debt securities was sold in 2003 and so the profi sales, and certain closed foreign exchange positions, of £295 million in 2003 were not rep

2003 com

In 2003, the Lloyds TSB Group accrued £31 million for payment to the Lloyds TSB Foundations, a reductio compared to 2002. Although there was a recovery in profitability during 2003 after making adjustment for dispo was a fall in the three year rolling average reducing the am

The significant reduction in other finance income in 2003 compared to 2002 reflected the combined impact of a r expected return on lower pension scheme assets as a result of a continuing weakness in global equity markets pension fund liabilities at the begi

During the first half of 2003 improved secondary bond market conditions allowed the Lloyds TSB Group to sell emerging markets debt securities. Profits on bond sales, and certain closed foreign exchange positions, i £295 million compared to £212 million in 2002. This benefit was partly offset by lower earnings on the investmen TSB Group s capital reflecting the reduction in average UK interest rates over 2003 co

Future accounting

International Financial Reporting Star

Up to 31 December 2004, the Lloyds TSB Group prepared its financial statements in accordance with UK Gene Accounting Principles (UK GAAP). On 1 January 2005, the Lloyds TSB Group, in common with other listed European Union (EU), implemented IFRS. In addition, in accordance with an undertaking given to the UK Acc Board during 2004, the Lloyds TSB Group has adopted the requirements of FRS 27 which has the effect o accounting for certain insurance contracts in the Lloyds TSB Group s life assurance business. The impact of outlined below and is based on the transition information released by the Lloyds TSB Group on 27 May 2005 wh further detail, the key impacts of the anticipated financial changes on particular line items in the financ

In accordance with the requirements of IFRS, revised results for 2004 include only those adjustments for standard with effect from 1 January 2004 (i.e. they exclude adjustments for standards which have been implemented w 1 January 2005 which are outlined in a separate s

The following table sets out the ir

Area of impact	IFRS treatment
Consolidation	IFRS requires line-by-line consolidation for all subsidiaries. Consequently, the Llo Group is no longer permitted to report the results and balances of the life assurance one line; instead these amounts must be broken down into their constituent parts an the appropriate line items. IFRS also requires consolidation of several entities that TSB Group was not required to consolidate under UK GAAP. These relate to the e supporting the Lloyds TSB Group s securitisation conduits, which facilitate custor securitisations, and to Open Ended Investment Companies (OEICs) where the Lloy Group, through the Scottish Widows life funds, has an interest. This will have the e grossing-up the balances reported in the income statement and on the balance shee changes have reduced the Lloyds TSB Group s profit before tax for the year endec 2004 by £4 million and increased shareholders equity at 31 December 2004 by £
Leasing	IFRS requires income from finance leases to be credited to the income statement so constant pre-tax rate of return on the net cash invested; UK GAAP requires a const rate of return. In addition, IFRS requires depreciation on operating lease assets to b the same basis as for tangible fixed assets which for the Lloyds TSB Group is a str basis. Under UK GAAP depreciation is charged so as to give a constant rate of retu leased asset. The effect of these changes is to reduce profit before tax for the year e December 2004 by £32 million and reduce shareholders equity at 31 December 2 £268 million.
Employee benefits	IFRS 2 requires that a cost be recognised in the financial statements for all options executive and employee Save-As-You-Earn share option schemes. The total cost re represents the fair value of the options (as determined using an option valuation mo grant date, as adjusted for the expected number of forfeitures and, for executive sch probability that the performance target will not be met. This total cost is spread ove vesting. This will result in an increase in the costs recognised in the Lloyds TSB G statement as under UK GAAP only the intrinsic value of executive share options is the profit and loss account. The Lloyds TSB Group has applied the requirements o *Retirement Benefits*, in its UK GAAP financial statements since 2002. The requiren standard are broadly similar to those of IAS 19, *Employee Benefits*; the application therefore had no significant impact on the Lloyds TSB Group s profit before tax fo ended 31 December 2004. The Lloyds TSB Group has elected to apply the corrido determine the treatment of actuarial gains and losses arising during the year as perr IAS 19. This means that to the extent that the cumulative gains or losses remain wi corridor, defined as the greater of 10 per cent of the scheme assets or liabilities, the reflected in the accounts. If the cumulative gains or losses exceed the corridor, the

charged or credited to the income statement on a straight-line basis over the averag
service lives of those employees who are members of the schemes. The effect of th
derecognise the actuarial losses charged to reserves in 2004 under UK GAAP in th
figures. The overall effect of the changes in accounting for employee benefits is to
before tax for the year ended 31 December 2004 by £25 million, principally repres
additional cost of the Lloyds TSB Group s SAYE share option schemes. Sharehol
31 December 2004 increased by £95 million largely as a result of the reversal of th
losses charged against reserves in 2004 under UK GAAP.

Area of impact	IFRS treatment
Capitalisation of software	Currently only software costs relating to separable new systems are capitalised. Ur costs relating to enhancements that lead to additional system functionality will also capitalised. The impact on the Lloyds TSB Group s income statement will depend IT expenditure and whether it meets the criteria for capitalisation. The effect of thi reduce profit before tax for the year ended 31 December 2004 by £12 million (the additional software capitalised during the year under IFRS is more than offset by a amortisation charge reflecting the impact of additional software capitalised as at 1 Shareholders equity at 31 December 2004 is increased by £19 million equivalent value of the additional software capitalised at that date.
Investment management fees	Under IFRS the Lloyds TSB Group will move from immediate recognition of up-f received for investment management services to recognising them on a straight-lin the estimated lives of the investment contracts. The effect of this change has been Lloyds TSB Group s profit before tax for the year ended 31 December 2004 by £3 Shareholders equity at 31 December 2004 is reduced by £37 million.
Goodwill	The current Lloyds TSB Group policy of amortising goodwill arising on acquisitio 1 January 1998, with the exception of the goodwill which arose on the acquisition Widows, will cease. Instead, all goodwill will be subject to impairment testing ann frequently if events or circumstances indicate that it might be impaired. The effect is to increase profit before tax for the year ended 31 December 2004 by £44 millio shareholders equity at 31 December 2004 by £41 million.
Dividends	Under IFRS equity dividends declared after the balance sheet date may not be inclu liability at the balance sheet date. The effect of this change is to increase sharehold 31 December 2004 by £1,315 million, the amount of the 2004 final dividend.
Depreciation	In addition to the impact for depreciation of operating lease assets outlined above, property, plant and equipment to be depreciated since the date of acquisition. Unde long leasehold and freehold properties have been depreciated only since 1 January therefore it is necessary to adjust their carrying values to reflect the depreciation th been charged from the date of acquisition to 1 January 2000. The effect of this cha reduce shareholders equity at 31 December 2004 by £47 million; the impact on th Group s profit before tax for the year ended 31 December 2004 is not significant.
Claims equalisation provision	The claims equalisation provision in respect of the Lloyds TSB Group s general in business, established under law to minimise volatility in incurred claims, is not per IFRS. The effect of this change has been to increase the Lloyds TSB Group s prof the year ended 31 December 2004 by £10 million. Shareholders equity at 31 Dec increased by £43 million.

The most significant changes for 2004 arising from the transition to those IFRS standards which apply from 1 Ja the different accounting treatment of goodwill, leasing, employee share option schemes and certain aspects relatin TSB Group s insurance businesses. These changes have had the effect of increasing profit before tax fo 31 December 2004 by £2 million to £3,495 million and shareholders equity at 31 December 2004 by £ £

1 January 2005 opening balanc

The following table sets out the impact of those standards that are applied from 1 January 2005 inc

Area of impact	IFRS treatment
Fees integral to effective yield	Fees and commissions that are an integral part of the effective yield on a financial and direct incremental costs associated with its origination, are included in the calc effective interest rate and recognised over the expected life of the instrument, or a if appropriate. The effective interest rate is the rate that exactly discounts the expec cash receipts or payments over the expected life of the financial instrument to the r value of the instrument. As a result, up-front fees and costs that were recognised w or incurred, under UK GAAP, for example those related to loan origination, are no and fee income typically charged at the end of an agreement, for example early rec charges on mortgages, is now brought forward. The effect of this change has been shareholders equity at 1 January 2005 by £22 million.

Area of impact	IFRS treatment
Loan impairment	IFRS adopts an incurred loss model for impairment losses on loans and provides g measurement of impairment. A provision is raised for losses in respect of exposure known to be impaired. The required provision is calculated by comparing the book loans with the net present value of the expected future cash flows from the loans di their effective interest rates or, as a practical expedient for variable rate loans, usin market prices. Exposures found not to be impaired are placed into pools of similar similar risk characteristics to be collectively assessed for losses that have been incu not yet identified. For such exposures, the required provision is estimated on the ba historical loss experience for assets with credit risk characteristics similar to those collective pool, adjusted based on current observable data. As the discounting effe provisions unwinds, the resulting income is reflected within net interest income. A of these principles are similar to those followed by the Lloyds TSB Group under U requirement to discount the expected cash flows at the original effective interest ra determining the provisioning requirement has resulted in an increase in provisions £314 million at 1 January 2005, which, after tax, has resulted in a reduction in shar equity of £221 million. This is not a reflection of any change in credit quality as th no change in the level of expected cash recoveries.
Netting	IFRS prohibits financial assets and financial liabilities from being offset unless the right of set-off and the asset and liability are in practice normally settled on a net b banking business, this will result in the grossing-up on the balance sheet of certain liabilities subject to set-off arrangements that were presented net under UK GAAP this change, at 1 January 2005 balance sheet footings have been increased by £10,2 principally reflecting the grossing up of corporate loans and deposits and inter-ban balances, which although subject to set-off arrangements, will not be settled on a n
Derivatives, hedging and investment securities	The Lloyds TSB Group enters into derivative contracts for both trading purposes a exposures arising from within the banking book. Under UK GAAP trading derivat carried at fair value but hedging derivatives were accounted for on the same basis a underlying hedged item, mainly on an accruals basis. IAS 39 requires that all deriv are carried at fair value on the Lloyds TSB Group s balance sheet and movements value are reflected in the income statement; this results in a mismatch between the and the underlying economics where the Lloyds TSB Group has hedged its econon resulting from the different treatment of the derivative and the underlying hedged p Lloyds TSB Group has not changed the way it hedges its economic exposures as a implementation of IFRS, but the Lloyds TSB Group seeks to mitigate the resulting statement volatility by the application of hedge accounting. The Lloyds TSB Grou the permitted kinds of hedge accounting: fair value and cash flow hedge accountin TSB Group makes greater use of fair value hedge accounting which seeks to match income statement, changes in the fair value of the hedged risk with the changes in of the related derivatives. Cash flow hedge accounting is being used to a lesser exte adjustments reflecting the movements in the fair values of the derivatives concerne a separate reserve in equity and recycled to the income statement when the hedged affect income. IFRS contains detailed requirements for designation and documenta relationships and testing of their effectiveness. To the extent that a hedge is ineffec impact is immediately reflected in the income statement. Although the Lloyds TSB intends to mitigate the volatility arising from the requirement to fair value all deriv possible, this will be a source of increased volatility in the income statement in 200 An adjustment has been made at 1 January 2005 to measure all derivatives at their to reflect the establishment as at that date of compliant hedging relationships. The has been to reduce shareholders equity by £192 million. Under UK GAAP debt s for continuing use in the business were classified as investment securities and carri balance sheet at cost less any provisions for permanent diminution in value. IAS 39 strict requirements to be met before debt securities can be carried at amortised cost Lloyds TSB Group has determined that it does not meet these. Accordingly debt se previously classified as investment securities have been reclassified as available-fo valued at their fair values at 1 January 2005. Equity shares may not be carried at co IAS 39 and these have also been reclassified as available-for-sale. The effect of thi reclassification has been to increase shareholders equity at 1 January 2005 by £28 forward, movements in the fair values of these available-for-sale securities will be equity and the cumulative gain or loss recycled through the income statement upon

impairment.

Area of impact	IFRS treatment
Insurance	IFRS 4, which introduces a revised definition of an insurance contract, applies to i contracts as well as investment contracts with discretionary participation features. investment contracts entitle the holder to receive additional discretionary benefits (depending on performance and are referred to as participating investment contracts contracts that are not within the scope of IFRS 4 are accounted for as financial inst IAS 39. The principal effects of this change on the accounting for non-participatin contracts is the removal of that portion of the embedded value which represents th in-force business relating to those contracts, the recognition of an asset for deferre costs, and the deferral of up-front fees received for investment management servic acquisition costs and deferred up-front fees are amortised over the period of the pr investment management services. For those contracts within the scope of IFRS 4, practices are largely unchanged except for the modifications introduced by FRS 27 with separately below. The effect of this change is to reduce shareholders equity 2005 by £836 million.
Life assurance (FRS 27)	Following the implementation of FRS 27, the Lloyds TSB Group excludes from th in-force business recognised in the balance sheet any amounts that reflect future in margins and measures the liabilities of the Scottish Widows With-Profits Fund in a with the realistic capital regime of the Financial Services Authority. This basis incl realistic valuation of guarantees and options embedded within products written by With-Profits Fund. The principal effect of these new requirements is on the measu in-force business, as the valuation of the With-Profits Fund on a realistic basis red expected income to the shareholder from that fund. Changes in the valuation are re income statement and because this is market related it is inherently volatile. The ef changes has been to reduce shareholders equity at 1 January 2005 by £230 millio
Equity to debt reclassification	The classification of the majority of the Lloyds TSB Group s capital and subordin instruments will continue to follow their UK GAAP treatment; however, the limite ordinary shares will be reclassified as debt. This is because under the terms of the with the four Lloyds TSB Foundations, which are the holders of the limited voting shares, the Lloyds TSB Group is committed to making an annual payment, equiva cent of the consolidated pre-tax profit, averaged over three years. In addition, the L Group s preferred securities, which were treated as non-equity minority interests u UK GAAP, will be reclassified as debt because the coupon payment is not discreti Distributions on these securities will be shown as interest expense rather than as m interests. The effect of these reclassifications is to reduce shareholders equity by minority interests by £550 million at 1 January 2005; long-term borrowings increa £570 million.
Derecognition of financial liabilities	Under IFRS a financial liability may only be removed from the balance sheet after settled, it has expired or alternatively the debtor has been legally released from the either by process of law or by the creditor. Upon adoption of IFRS, certain financi respect of which amounts had been released to the profit and loss account under U the basis that the likelihood of their settlement was remote have been remeasured 2005 to reflect the entire legal obligation. At 1 January 2005 the effect of the reme increase liabilities by £184 million which, after tax, has resulted in a reduction in s equity of £131 million.

The most significant changes arising from the transition to IFRS and FRS 27 are in relation to life assuranc accounting; and the grossing up of certain lending, deposit and derivative balances. In overall terms, the impact of and FRS27 (including the impact of changes for 2004 outlined above) on the Lloyds TSB Group s share 31 December 2004 was to reduce the UK GAAP balance of £9,977 million by £405 million to

The effect of the full implementation of IFRS and FRS27 on the Lloyds TSB Group s 2005 earnings will depen of factors such as business mix, rate of growth and market conditions. The increased use in IFRS of fair values is l greater volatility, particularly in the results of the Lloyds TSB Group s life assurance businesses. Excluding th application of effective interest rates, the reclassification of certain securities from equity to debt and the impact on levels of loan loss impairment are likely to result in some redu

Current indications are that the overall impact, excluding the volatility introduced by the requirements of IFRS ar
be to reduce the Lloyds TSB Group s reported earnings per share, compared with those that would have bee
UK GAAP, by approximately 6 per cent. Excluding goodwill amortisation, earnings per share (before volatility)
reduce by approximately 7 per cent. Profit before tax (before volatility) is expected to be approximately 8
additionally reflecting the inclusion of coupon payments on preferred securities now being treated as an interest
than minority interests. This likely reduction in earnings in 2005 is almost entirely due to changes in the timing
expense recognition in the Lloyds TSB Group s fina

Further standards and interpretations may be issued that could be applicable for financial years ending i
accounting periods but with the option for earlier adoption. IFRS is also being applied in the EU and other countr
time and practice on which to draw in applying the standards is still developing. Consequently, the overall impact
Lloyds TSB Group s results and financial position is su

UK GAAP compared w

Under US GAAP, Lloyds TSB Group s net income for the year ended 31 December 2004 was £1,50
£3,231 million) compared to £2,421 million (2003: £3,254 million) under UK GAAP. Reconciliations between
US GAAP figures, together with detailed explanations of the accounting differences, are included in note 50

As was the case under UK GAAP, the decline in the Lloyds TSB Group s US GAAP net income in 2004 co
primarily reflects the non-recurrence of the gains on the disposal of a number of overseas businesses, principall
Bank of New Zealand. The 2004 US GAAP results have also been adversely affected by the implementation of th
of AICPA Statement of Position 03-1, which has changed the way in which certain aspects of the Group s insura
accounted for, and resulted in a charge to reflect the cumulative effect of the change in accounting principle.
implementation of the requirements of FIN 46(R) in 2004, has resulted in certain additional entities being conso
2004 US GAAP results; this has had the effect of reducing net in

Other areas where differences in accounting have had a significant effect upon the Lloyds TSB Group s US GA

Insurance accounting. Under UK GAAP applicable to banking groups, life assurance activities are accounte
embedded value basis of accounting which requires the recognition of the discounted value of the projected future
attributable to the shareholder at the point of sale. UK GAAP therefore results in a substantial proportion o
accruing on a portfolio of life assurance policies being recognised at their inception. Under US GAAP income i
the profit and loss account in the period in which it is earned and expenses in the period in which they are incurr
in a more even recognition of profit over the life of the r

Goodwill and intangible assets. Under US GAAP, goodwill is not amortised through the profit and loss accou
amortised under UK GAAP, however the charge in the Lloyds TSB Group s profit and loss account is relativel
directors have decided that it is not appropriate to amortise the goodwill that arose on the acquisition of Scot
2000. This is therefore not a cause of a significant difference in net income. However, under US GAAP, the Lloy
is required to recognise an intangible asset reflecting the value of the customer relationships associated with acqui
prior periods. This intangible asset is amortised through the profit and loss account reducing US GA

Derivatives. Under UK GAAP, derivatives held for risk management purposes are accounted for on an accrua
with the underlying instruments being hedged. Under US GAAP, because Lloyds TSB Group has elected not to s
onerous hedging criteria of SFAS No. 133 Accounting for Derivative Instruments and for Hedging Activi
derivative contracts, these instruments are treated as being held for trading purposes, with the unrealised mark-t
and losses taken to income as they arise and the resulting assets or liabilities recorded on the balance sheet.
Group continues to hold a significant number of derivatives which are hedge accounted under UK GAAP this
income and shareholders equity under US GAAP are subject to g

Pensions. Under UK GAAP actuarial gains and losses arising from the Group s pension schemes are adjusted ag
the year in which they arise. Under US GAAP actuarial gains and losses are not recognised unless the cumulative
10 per cent of the greater of the projected benefit obligation or the value of the plan assets; in these circumstanc
amortised through the profit and loss account over the average remaining service lives of act

At the beginning of the year the cumulative unrecognised actuarial losses related to the Lloyds TSB Group s
exceeded the prescribed limits and consequently the 2004 US GAAP results include an amortisation char
recognised unc

Average balance sheet and net in

The following average balance sheet excludes the long-term assurance business assets and liabilities
policyholders. The interest yields and costs for foreign office assets and liabilities have been affected by Lloyd
operations in Latin America, particularly in 2003 and earlier years. The countries in which Lloyds TSB Group h
periodically subject to comparatively high rates of interest, which in certain instances in the tables below has h
producing unusually high y

	2004 Average balance £m	**2004 Interest income £m**	**2004 Yield %**	2003 Average balance £m	2003 Interest income £m	2003 Yield %	2002 Average balance £m
Assets							
Treasury bills and other eligible bills:							
Domestic offices	**41**	**2**	**4.88**	2,237	68	3.04	2,608
Foreign offices	**161**	**4**	**2.48**	541	5	0.92	906
Loans and advances to banks:							
Domestic offices	**19,289**	**578**	**3.00**	11,831	412	3.48	11,839
Foreign offices	**2,071**	**62**	**2.99**	2,487	117	4.70	2,275
Loans and advances to customers:							
Domestic offices	**126,573**	**8,243**	**6.51**	111,340	6,877	6.18	100,087
Foreign offices	**5,514**	**219**	**3.97**	18,491	1,434	7.76	17,695
Debt securities:							
Domestic offices	**9,842**	**305**	**3.10**	9,863	350	3.55	8,661
Foreign offices	**4,372**	**118**	**2.70**	4,664	102	2.19	6,022
Lease and hire purchase receivables:							
Domestic offices	**11,118**	**864**	**7.77**	11,429	783	6.85	11,707
Foreign offices				13	1	7.69	18
Total interest-earning assets of banking book	**178,981**	**10,395**	**5.81**	172,896	10,149	5.87	161,818
Total interest-earning assets of trading book	**14,992**	**589**	**3.93**	17,622	666	3.78	15,518
Total interest-earning assets	**193,973**	**10,984**	**5.66**	190,518	10,815	5.68	177,336
Provisions for bad and doubtful debts	**(1,729)**			(1,846)			(1,623)
Non-interest earning assets:							
Domestic offices	**19,967**			18,973			19,941
Foreign offices	**902**			3,353			2,822
Total average assets and interest income	**213,113**	**10,984**	**5.15**	210,998	10,815	5.13	198,476
Percentage of assets applicable to foreign activities (%)	**6.0**			13.8			14.8

2004 Average interest earning assets £m	**2004 Net interest income £m**	**2004 Net interest margin %**	2003 Average interest earning assets £m	2003 Net interest income £m	2003 Net interest margin %	2002 Average interest earning assets £m

Average interest-earning assets and net interest income:								
Banking business	**178,981**	**4,920**	**2.75**	172,896	5,255	3.04	161,818	5,17
Trading business	**14,992**			17,622			15,518	
Net yield on interest-earning assets	**193,973**	**4,920**	**2.54**	190,518	5,255	2.76	177,336	5,17

	2004 Average balance £m	**2004 Interest expense £m**	**2004 Cost %**	2003 Average balance £m	2003 Interest expense £m	2003 Cost %	2002 Average balance £m	20 In ex £r
Liabilities and shareholders funds								
Deposits by banks:								
Domestic offices	**20,199**	**456**	**2.26**	13,610	259	1.90	12,587	32
Foreign offices	**4,227**	**102**	**2.41**	5,333	113	2.12	4,234	13
Liabilities to banks under sale and repurchase agreements:								
Domestic offices	**4,200**	**192**	**4.57**	1,449	29	2.00	2,799	80
Foreign offices	**4**		**2.41**	253	37	14.62	457	77
Customer accounts:								
Domestic offices	**105,926**	**3,044**	**2.87**	97,864	2,282	2.33	83,529	2,
Foreign offices	**2,303**	**40**	**1.74**	8,637	450	5.21	11,265	99
Liabilities to customers under sale and repurchase agreements:								
Domestic offices	**2,787**	**125**	**4.49**	2,990	148	4.95	2,898	13
Foreign offices	**121**	**2**	**1.65**	156	3	1.92	140	4
Debt securities in issue:								
Domestic offices	**18,389**	**865**	**4.70**	16,793	606	3.61	14,750	49
Foreign offices	**2,685**	**48**	**1.79**	7,959	345	4.33	7,953	35
Subordinated liabilities:								
Domestic offices	**10,175**	**601**	**5.91**	10,371	610	5.88	9,401	52
Foreign offices				198	12	6.06	190	11
Total interest-bearing liabilities of banking book	**171,016**	**5,475**	**3.20**	165,613	4,894	2.96	150,203	5,
Total interest-bearing liabilities of trading book	**14,992**	**589**	**3.93**	17,622	666	3.78	15,518	60
Total interest-bearing liabilities	**186,008**	**6,064**	**3.26**	183,235	5,560	3.03	165,721	5,
Interest-free liabilities								
Minority interests and shareholders funds:								
Domestic offices	**8,208**			6,133			8,522	
Foreign offices	**2,388**			3,064			2,801	
Non-interest bearing customer accounts:								
Domestic offices	**3,134**			2,745			5,985	
Foreign offices	**373**			845			789	
Other interest-free liabilities:								
Domestic offices	**12,252**			12,282			13,118	
Foreign offices	**750**			2,694			1,540	
Total average liabilities and interest expense	**213,113**	**6,064**	**2.85**	210,998	5,560	2.64	198,476	5,
Percentage of liabilities applicable to foreign activities (%)	**5.2**			12.9			14.2	

Net interest margin for the

	2004 %	2003 %	2002 %
Domestic offices	**2.82**	3.11	3.28
Foreign offices	**1.74**	2.67	2.77
Group margin	**2.75**	3.04	3.20

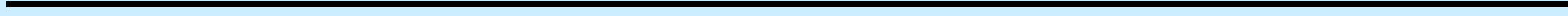
Loans and advances to banks and customers include non-performing loans. Interest receivable on such loans
included to the extent to which cash payments have been received, in accordance with Lloyds TSB Group s p

Approximately 85 per cent of the value of the balances are calculated on a daily basis with balances held by Lloy
leasing and asset finance businesses averaged on a monthly basis. Management believes that the interest
substantially the same as they would be if all balances were averaged on

Changes in net interest income volume a

The following table allocates changes in net interest income between volume and rate for 2004 compared with 200 compared with 2002. Where variances have arisen from both changes in volume and rate these are alloca

	2004 compared with 2003 Increase/(decrease)			2003 compared with 2002 Increase/(decrease)	
	Total change £m	**Volume £m**	**Rate £m**	Total change £m	Volume £m
Interest receivable and similar income					
Treasury bills and other eligible bills:					
Domestic offices	**(66)**	**(107)**	**41**	(17)	(11)
Foreign offices	**(1)**	**(9)**	**8**	(206)	(3)
Loans and advances to banks:					
Domestic offices	**166**	**223**	**(57)**	(58)	
Foreign offices	**(55)**	**(12)**	**(43)**	(12)	10
Loans and advances to customers:					
Domestic offices	**1,366**	**992**	**374**	383	695
Foreign offices	**(1,215)**	**(515)**	**(700)**	(327)	62
Debt securities:					
Domestic offices	**(45)**	**(1)**	**(44)**	3	43
Foreign offices	**16**	**(8)**	**24**	(118)	(30)
Lease and hire purchase receivables:					
Domestic offices	**81**	**(24)**	**105**	(47)	(19)
Foreign offices	**(1)**		**(1)**	(1)	
Total banking book interest receivable and similar income	**246**	**539**	**(293)**	(400)	747
Total trading book interest receivable and similar income	**(77)**	**(103)**	**26**	64	80
Total interest receivable and similar income	**169**	**436**	**(267)**	(336)	827
Interest payable					
Deposits by banks:					
Domestic offices	**197**	**149**	**48**	(63)	19
Foreign offices	**(11)**	**(27)**	**16**	(24)	23
Liabilities to banks under sale and repurchase agreements:					
Domestic offices	**163**	**126**	**37**	(51)	(27)
Foreign offices	**(37)**	**(6)**	**(31)**	(40)	(30)
Customer accounts:					
Domestic offices	**762**	**232**	**530**	42	334
Foreign offices	**(410)**	**(110)**	**(300)**	(543)	(137)
Liabilities to customers under sale and repurchase agreements:					
Domestic offices	**(23)**	**(9)**	**(14)**	13	5
Foreign offices	**(1)**	**(1)**		(1)	
Debt securities in issue:					
Domestic offices	**259**	**75**	**184**	108	74
Foreign offices	**(297)**	**(94)**	**(203)**	(10)	
Subordinated liabilities:					
Domestic offices	**(9)**	**(12)**	**3**	84	57
Foreign offices	**(12)**		**(12)**	1	
Total banking book interest payable	**581**	**323**	**258**	(484)	318
Total trading book interest payable	**(77)**	**(103)**	**26**	64	80
Total interest payable	**504**	**220**	**284**	(420)	398



Risk

Risk as a strategic

Risk awareness has improved significantly. The ground work of embedding the risk governance framework has b
and the challenge and support provided by specialist risk functions has been located closer to business units, whi
independence. This is reflected in dual reporting lines to both the chief risk director and business managers. Ri
been strengthened and a new reporting system has been developed and implemented which better identifies oppor
as risks, improves the ability to take an aggregate view of the overall risk portfolio and assigns clear resp
timetables at Group and divisional level for risk mitigation strategies. Risk continues to be a key componen
management information reporting and is embedded in the balanced scorecards, which are cascaded to every m
The objective is to go beyond risk mitigation and control to developing risk capabilities as a key strategic di

Capabilities

Regulatory requirements

Risk control

Defining and promoting effective use of the Group s risk capacity

Differentiating excellence in risk management

Effectiveness

Having worked to reduce risk and earnings volatility during 2003 by tactically selling part of our portfolio of l
year s focus has been more on improving the understanding of risk. Our credit disciplines are strong, which w
positioned, should there be any adverse change in the economic climate during 2005 and as we selectively seek
lending portfolios. Allied to this there has been a much closer alignment between risk and the strategic plannin
terms of identifying risks to the delivery of the plans and change in risk appetite arising fro

Risk manageme

Lloyds TSB Group uses an enterprise-wide framework for the identification, assessment, measurement and mana
designed to meet its customers needs and maximise value for shareholders over time by aligning risk mana
corporate strategy; assessing the impact of emerging risks from new technologies or markets; and developing risk
mitigating strategies. The framework strengthens the Group s ability to identify and assess risks; aggregate risk
corporate risk appetite; develop solutions for reducing or transferring risk, where appropriate; and explo
competitive advantage, thereby seeking to increase sha

Risks which the business assumes are broken down into eleven common risk drivers (shown on page 48
divisional risk functions use this format when reporting risks centrally, to enable risk aggregation, and when asses
of new products, change initiatives or business plans. Business executive committees, with divisional oversigh
risk levels against their risk appetite, seeking to ensure effective mitigating action is being taken where appropria
the risk appetite allocated to them is profitably and prudently deployed. Divisional risk profile reports are reviewe

business risk committee to seek to ensure that group executive directors and the chief risk director are aware of
and are comfortable these are being effectively managed. During the year a new group consolidated risk report
and implemented to further support the identification and

The Group is developing an improved approach towards its risk appetite (defined as the extent and categories of
board regards as appropriate and acceptable for the Group to bear). Adoption of the principles and metrics und
has the objective of deriving Lloyds TSB s risk appetite and processes explicitly from its strategic o
commitments it makes to all its stakeholders (customers, shareholders, staff, debt holders and regulators). This w

Lloyds TSB Group has a risk language in which all risks are classified within one or more of the eleven risk

Governance, people and organisation

Strategy

Credit

Market

Insurance

Operations

Product and service

Financial

Customer treatment

Legal and regulatory

Change management

Sub-risks have been developed for these high level risks to further refine the identification and classification of
risk events to be accurately categorised to facilitate analysis

Governance, people and organisation risk, operations risk, customer treatment risk, legal and regulatory ri
management risk are collectively managed as operational risks. A more detailed language has been ider
op

The Group s high level policies and reporting to the group business risk committee, risk oversight committee,
and board are aligned to t

Ri

The changing regulatory environment faced by the Group s businesses, and developments in best practice, pror
during 2003 to extensively review its risk governance structures and deliver more effective risk management.
embedding these changes has progressed during 2004 and is now substantially complete. In addition, further enha
made during the year with a solid reporting line established between the divisional risk officers and the chi

Board and committees

Risk management oversight

Business risk management

Board and board committees

Management committees

Personnel

Functions

Direct reporting line

Functional reporting line to support committees

Director of group audit

Divisional risk officers

Group Risk

Group executive directors

Chief risk director

Group chief executive

Business risk functions

Audit committee

Lloyds TSB board

Risk oversight committee

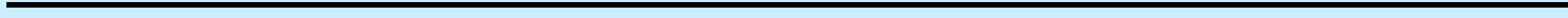
Group executive committee

Group asset and liability committee

Group business risk committee

The risk oversight responsibilities of the board, audit committee and risk oversight committee are shown i governance section on pages 89 to 92, whilst further key risk oversight roles are de

The group executive committee, assisted by its sub-committees the group business risk committee and the g liability committee, supports the group chief executive in ensuring the development, implementation and effe Group s risk management framework and the clear articulation of the Group s risk policies, and reviews the Gro exposures and concentrations of risk. The group executive committee s duties are described more f



Directors of the Group s businesses have primary responsibility for measuring, monitoring and controlling risks w
of accountability and are empowered to establish control frameworks for their businesses that are consistent w
high level policies and within the parameters set by the board, group executive committee, Group Risk and the
officers. The policies and parameters are overseen by the risk oversight committee, the group business risk comm
asset and liability committee, Group Risk and the division

The chief risk director, a member of the group executive committee, oversees and promotes the development and i
of a consistent group wide risk management framework and provides objective challenge to the group execut
Group Risk supports the chief risk director in perfo

Divisional risk officers provide oversight of risk management activity within each of the Group s operating divi
directly to the group executive directors responsible for the divisions, their day-to-day contact with busines
business operations and risk initiatives, provides an effective risk oversight mechanism. They meet regularly wit
director to enable best practice to be shared and to provide a wide ranging and current perspective on material r

The director of group audit provides the required independent assurance to the board and audit committee that r
Group are recognised, monitored and managed within acceptable parameters. Group Audit is fully independent
ensuring objective challenge to the effectiveness of the risk governan

Accountability of line management has also been reinforced in relation to the management of risks arising from i
in developing the risk awareness and risk management capability of its staff. A key objective is to ensure that bus
strike an appropriate balance between risk and reward, consistent with the Group s risk appetite. As shown on p
management forms part of a tiered risk management model, with the divisional risk officers providing oversight
as described above, and the chief risk director and Group committees establishing the group wi

The model seeks to provide the Group with an effective mechanism for developing and promulgating risk p
management strategies which are aligned with the risks faced by its businesses. It also facilitates more effective c
on these matters across the Group. These arrangements will enable the Group to better anticipate and pre-em
manage more effectively those risks wh

Reflecting the importance the Group places on risk management, risk is one of the five principal criteria that i
balanced scorecard on which individual staff performance is judged. Business executives have specified ris
objectives, and incentive schemes take account of performanc

There is an annual control self-assessment exercise under which key businesses and head office functions ac
review specific controls and certify the accuracy of the

This is the risk of loss arising from counterparty default subsequent to the provision of credit facilities (both on- a
sheet). Lloyds TSB Group has dedicated standards, policies and procedures for the measurement, control and
credit an

Group rating system. All business units operate an authorised rating system complying with the Group s standa
The Group uses a Master Scale rating structure with ratings corresponding to a range of probabilities

Portfolio analysis. With Group Risk, businesses identify and define portfolios of credit and related risk exposu
benchmarks, behaviours and characteristics by which those portfolios are managed in terms of credit risk exposu
the production and analysis of regular portfolio monitoring reports for review b

To enhance further the ability to measure and predict future risk, the Group continues to develop new p
manage

Counterparty limits. Exposure to individual counterparties, groups of counterparties or customer risk segmen
through a tiered hierarchy of delegated sanctioning authorities. Approval requirements for each decision a
transaction amount, the customer s aggregate facilities, credit risk ratings and the nature and term of the risk. R
significant credit exposures are provided to the group executive commi

Cross-border and cross-currency exposures. Country limits are authorised and managed by a dedicated unit taki
economic and p

Concentration risk. The formulation of concentration limits on certain industries and sectors. Group Risk sets s
reflect risk appetite, and monitors exposures to prevent excessive conce

Credit derivatives. These are a method of transferring credit risk from one counterparty to another and of manag
selected counterparties. Credit derivatives include credit swaps, credit spread options and credit linked notes.
limited exposure to su

Credit risk arising from the use of derivatives. Note 47 to the financial statements shows the total notional princ
interest rate, exchange rate and equity and other contracts outstanding at 31 December 2004. The notional princip
not, however, represent the Group s real exposure to credit risk, which is limited to the current cost of replacing
positive value to the Group, should the counterparty default. This replacement cost is also shown in note 47
statements. To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and co
where security is provided agains

A number of tools, including group level credit policy where appropriate, are used to control the Group s ex
level

High-level credit policies designed to ensure a balanced and managed approach to the identification and mitiga
risk.
Lending guidelines defining the responsibilities of lending officers seek to provide a disciplined and focused be
credit decisions.
Independent review of credit exposures at divisional and group level.
Sector caps, encompassing both industry sectors and specific product types are established by Group Risk to co
Group s risk appetite for specific types of business, primarily in the non-retail markets.
Establishment and maintenance of the Group s large exposure and provisioning policies, in accordance with re
reporting requirements.
Monitoring of scorecards. The Group uses statistically-based decisioning techniques (primarily credit scoring a
performance scoring) for its principal consumer lending portfolios. Group Risk reviews and monitors new and
changes to scorecards.
Maintenance of a facilities database. Group Risk operates a centralised database of large corporate, sovereign a
facilities designed to monitor aggregate exposure throughout the Group.
Monitoring and controlling residual value risk exposure. The Group s appetite for such exposure is communica
business by a series of time referenced sector caps, seeking to ensure an acceptable distribution of risk.
Communication and provision of general guidance on all credit-related risk issues, including regulatory change
environmental risk policy, to promote consistent and best practice throughout the Group.
Day-to-day credit management and asset quality within each business is primarily the responsibility of the re
director. Businesses have established credit policies and processes reflecting Group policy. Businesses lendin
delegated by officers holding divisional lending authority. All material authorities are advised

Credit quality is supported by specialist units established within the Group businesses to provide, for exan
management and control; security perfection, maintenance and retention; expertise in documentation for lending
products; sector-specific expertise; and legal services applicable to the particular market place and product range

Credit risk exposures in the insurance businesses arise primarily from holding investments and from exposur
Control is exercised over those exposures through a suitable combination of formal limits, credit policy paran
level comm

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Analysis of loans and advances to banks

The following table analyses loans to banks and customers by geographical area and type of loan at 31 December
fi

	2004	2003	2002	2001
	£m	£m	£m	£m
Domestic				
Loans and advances to banks	**20,769**	13,671	15,291	12,737
Loans and advances to customers:				
Mortgages	**80,065**	70,750	62,467	56,578
Other personal lending	**22,833**	20,139	16,579	13,765
Agriculture, forestry and fishing	**2,076**	2,025	2,076	2,074
Manufacturing	**3,292**	3,211	3,373	3,321
Construction	**1,877**	1,497	1,482	1,309
Transport, distribution and hotels	**6,753**	4,741	4,696	4,440
Financial, business and other services	**12,103**	9,652	8,352	8,736
Property companies	**5,775**	4,577	4,008	2,907
Lease financing	**6,387**	6,470	7,285	7,552
Hire purchase	**4,828**	4,701	4,342	4,364
Other	**5,321**	3,351	3,397	2,992
Total domestic loans	**172,079**	144,785	133,348	120,775
Foreign				
Loans and advances to banks	**2,797**	1,894	2,239	2,489
Loans and advances to customers:				
Mortgages	**277**	331	4,763	3,467
Other personal lending	**256**	263	1,098	1,672
Agriculture, forestry and fishing	**31**	40	2,220	1,708
Manufacturing	**511**	926	1,608	2,004
Construction	**87**	124	328	304
Transport, distribution and hotels	**1,041**	1,423	2,459	2,570
Financial, business and other services	**1,763**	1,866	3,196	2,631
Property companies	**64**	74	1,117	896
Lease financing			15	33
Other	**583**	795	1,436	1,148
Total foreign loans	**7,410**	7,736	20,479	18,922
Total loans	**179,489**	152,521	153,827	139,697
Provisions for loan losses	**(1,663)**	(1,695)	(1,767)	(1,468)
Interest held in suspense	**(21)**	(28)	(57)	(70)
Total loans and advances net of provisions and interest held in suspense	**177,805**	150,798	152,003	138,159

	2004	2003	2002	2001	2000
	£m	£m	£m	£m	£m
Analysis of foreign loans by region					
Loans and advances to customers:					
New Zealand			10,447	8,435	7,368
Latin America	**125**	557	1,591	2,347	2,222
USA	**2,385**	2,681	3,412	3,059	2,502
Europe	**1,587**	1,981	2,142	2,118	1,734
Rest of the world	**516**	623	648	474	551
	4,613	5,842	18,240	16,433	14,377
Loans and advances to banks:					
New Zealand			622	534	357
Latin America	**72**	143	52	209	105
USA	**69**	95	227	158	121
Europe	**1,853**	1,408	1,164	1,379	1,353
Rest of the world	**803**	248	174	209	195
	2,797	1,894	2,239	2,489	2,131
Total foreign loans	**7,410**	7,736	20,479	18,922	16,508

The classification of lending as domestic or foreign is based on the location of the office recording the transac
certain lending of the international business boo

Summary of loan l

The following table analyses the movements in the allowance for loan losses for each of the fi

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Balance at beginning of year					
Domestic	**1,468**	1,344	1,162	1,129	1,134
Foreign	**227**	423	306	297	280
Total balance at beginning of year	**1,695**	1,767	1,468	1,426	1,414
Exchange and other adjustments	**(11)**	(1)	(58)	(14)	2
Acquisition and disposal of businesses	**(33)**	(54)	3		49
Advances written off:					
Domestic					
Loans and advances to customers:					
Mortgages	**(2)**	(1)	(21)	(23)	(35)
Other personal lending	**(760)**	(691)	(554)	(456)	(401)
Agriculture, forestry and fishing	**(4)**	(11)	(2)	(9)	(12)
Manufacturing	**(39)**	(30)	(25)	(18)	(13)
Construction	**(3)**	(11)	(17)	(8)	(9)
Transport, distribution and hotels	**(33)**	(40)	(27)	(34)	(27)
Financial, business and other services	**(17)**	(11)	(53)	(44)	(28)
Property companies	**(15)**	(36)	(19)	(21)	(17)
Lease financing	**(3)**	(4)	(17)	(11)	(12)
Hire purchase	**(49)**	(44)	(50)	(68)	(67)
Other	**(36)**	(47)	(2)	(9)	
Loans and advances to banks	**(15)**				
Total domestic	**(976)**	(926)	(787)	(701)	(621)
Foreign	**(52)**	(219)	(91)	(184)	(124)
Total advances written off	**(1,028)**	(1,145)	(878)	(885)	(745)
Recoveries of advances written off:					
Domestic					
Loans and advances to customers:					
Mortgages	**2**	2	5	17	12
Other personal lending	**119**	103	83	81	63
Agriculture, forestry and fishing	**1**	2	3	4	2
Manufacturing	**7**	6	17	5	6
Construction	**7**	2	3	2	2
Transport, distribution and hotels	**14**	7	12	10	11
Financial, business and other services	**14**	7	13	11	10
Property companies		6	10	6	5
Lease financing		1	3	4	5
Hire purchase	**6**	6	15	22	24
Other	**1**		1	3	
Total domestic	**171**	142	165	165	140
Foreign	**3**	36	38	29	25
Total recoveries of advances written off	**174**	178	203	194	165
Net advances written off:					
Domestic	**(805)**	(784)	(622)	(536)	(481)
Foreign	**(49)**	(183)	(53)	(155)	(99)

Total net advances written off	**(854)**	(967)	(675)	(691)	(580)

	2004	2003	2002	20
	£m	£m	£m	£n
Provision for loan losses charged against income for the year:				
Domestic				
Loans and advances to customers:				
Mortgages	**4**	(19)	(5)	2
Other personal lending	**807**	679	514	42
Agriculture, forestry and fishing	**(3)**	8		3
Manufacturing	**(1)**		31	40
Construction	**4**	11	14	(2)
Transport, distribution and hotels	**43**	26	28	28
Financial, business and other services	**(13)**	49	107	39
Property companies	**15**	22	(1)	4
Lease financing	**7**	2	3	5
Hire purchase	**57**	40	57	47
Other specific provisions	**35**	32	38	23
General provisions	**(57)**	9	14	(4
Loans and advances to banks		16		
Total domestic	**898**	875	800	57
Foreign	**(32)**	75	229	17
Total provision for loan losses charged against income for the year	**866**	950	1,029	74
Balance at end of year				
Domestic	**1,562**	1,468	1,344	1,1
Foreign	**101**	227	423	30
Total balance at end of year	**1,663**	1,695	1,767	1,4
Ratio of net write-offs during the year to average loans outstanding during the year	**0.6%**	0.7%	0.5%	0.6

The following table analyses the coverage of the allowance for loan losses by cat

	2004 Allowance £m	**2004 Percentage of loans in each category to total loans %**	2003 Allowance £m	2003 Percentage of loans in each category to total loans %	2002 Allowance £m	2002 Percentage of loans in each category to total loans %	2001 Allowance £m	2001 Percentage of loans in each category to total loans %	2000 Allowan £m
Balance at year end applicable to:									
Domestic:									
Loans and advances to banks	**1**	**11.6**	16	9.0		9.9		9.1	
Loans and advances to customers:									
Mortgages	**11**	**44.6**	7	46.4	25	40.7	44	40.5	48
Other personal lending	**788**	**12.7**	622	13.2	495	10.8	452	9.9	404
Agriculture, forestry and fishing	**3**	**1.2**	9	1.3	10	1.3	9	1.5	11
Manufacturing	**64**	**1.8**	97	2.1	121	2.2	98	2.4	71
Construction	**17**	**1.0**	9	1.0	7	1.0	7	0.9	15
Transport, distribution and hotels	**84**	**3.8**	60	3.1	67	3.1	54	3.2	50
Financial, business and other services	**158**	**6.7**	179	6.3	136	5.4	65	6.3	59
Property companies		**3.2**		3.0	8	2.6	18	2.1	29
Lease financing	**10**	**3.6**	6	4.2	7	4.7	18	5.4	20
Hire purchase	**91**	**2.7**	77	3.1	75	2.8	53	3.1	52
Other	**55**	**3.0**	50	2.2	65	2.2	30	2.1	15
Total domestic	**1,282**	**95.9**	1,132	94.9	1,016	86.7	848	86.5	774
Foreign	**101**	**4.1**	181	5.1	318	13.3	251	13.5	295
General provision	**280**		382		433		369		357
Total balance at year end	**1,663**	**100.0**	1,695	100.0	1,767	100.0	1,468	100.0	1,426

Risk elements in the

The following discussion consists of an analysis of credit risk elements by categories which reflect US lending practices. These differ from those employed in the UK

Suspended interest and non-perfo

In accordance with the UK British Bankers Association Statement of Recommended Practice on Advances, Llo continues to accrue interest, where appropriate, on doubtful debts when there is a realistic prospect of recovery. charged to the customer s account but it is not credited to income; it is placed on a suspense account and only ta there ceases to be significant doubt about its being paid. Loans are transferred to non-accrual status where the c

customer s account has ceased. This lending is managed by specialist recovery departments and is written down realisable value. Interest is not added to the lending or placed on a suspense account as its recovery is considere only taken to income i

In the US, it is the normal practice to stop accruing interest when payments are 90 days or more past due or wh both principal and interest is doubtful. When the loans are transferred to non-accrual status, accrued interest is income and no further interest is recognised until it becomes probable that the principal and interest will be repaid on which interest has been accrued but suspended would be included in risk elements as loans accounted for on

In addition, in the US non-performing loans and advances are typically written off more quickly than in the UK. UK bank may appear to have a higher level of non-performing loans and advances than a comparable US ban reported income is likely to be similar in both the U

Troubled debt

In the US, loans whose terms have been modified due to problems with the borrower are required to be separate
the new terms were in line with market conditions at the time of the restructuring and the restructured loan remai
repayment of principal and interest then the disclosure can be discontinued at the end o

There are no similar disclosure requirem

Potential

Potential problem loans are loans where known information about possible credit problems causes management t
as to the borrowers ability to comply with the present loan repayment terms. Interest continues to be accrued
loss account until, in the opinion of management, its ultimate recoverability bec

There are no similar disclosure requirem

Assets acquired in exchang

In most circumstances in the US, title to property securing residential real estate transfers to the lender upon fo
loan is written off and the property acquired in this way is reported in a separate balance sheet category with
recorded as an offset to the provision for loan losses recorded in the year. Upon sale of the acquired property, gai
recorded in the income statement as a gain or loss on acq

In the UK, although a bank is entitled to enforce a first charge on a property held as security, it typically doe
extent of enforcing its power of sale. In accordance with UK GAAP and industry practice, Lloyds TSB Group tal
property held as collateral on a loan at repossession but title does not transfer to it. Loans subject to repossession
reported as loans in the balance sheet although the accrual of interest is suspended. Any gains or losses on sale
property are recorded within the provision for loan losses during the re

The difference in practices has no effect on net income reported in the UK compared to that reported in the US bu
in a difference in classification of losses and recoveries in the income statement. It also has the effect of causin
report an increased level of non-performing loans compared

The following table analyses risk elements in the loan portfolio as at 31 December for the

	2004	2003	2002	20
	£m	£m	£m	£
Loans accounted for on a non-accrual basis				
Domestic offices	**617**	480	421	2
Foreign offices	**56**	105	241	1
Total non-accrual loans	**673**	585	662	3
Accruing loans on which interest is being placed in suspense				
Domestic offices	**527**	545	553	6
Foreign offices	**40**	88	199	2
Total suspended interest loans	**567**	633	752	8
Accruing loans on which interest is still being accrued and taken to profit, and against which specific provisions have been made				
Domestic offices	**1,362**	1,199	1,217	1,
Foreign offices	**2**	23	66	7
Total accruing loans against which specific provisions have been made	**1,364**	1,222	1,283	1,
Accruing loans on which interest is still being accrued and taken to profit, the lending is contractually past due 90 days or more as to principal or interest, but against which no provisions have been made				
Domestic offices	**1,040**	875	776	6
Foreign offices			34	3
Total accruing loans against which no provisions have been made	**1,040**	875	810	7

Troubled debt restructurings				
Domestic offices	**1**	1	1	1
Foreign offices			2	9
Total troubled debt restructurings	**1**	1	3	10
Total non-performing lending				
Domestic offices	**3,547**	3,100	2,968	2,
Foreign offices	**98**	216	542	42
Total non-performing lending	**3,645**	3,316	3,510	3,

Interest foregone on non-perfo

The table below summarises the interest foregone on loans accounted for on a non-accrual basis and troubled debt

	2004
	£m
Domestic lending	
Interest income that would have been recognised under original contract terms	**73**
Interest income included in profit	**(14)**
Interest foregone	**59**
Foreign lending	
Interest income that would have been recognised under original contract terms	**2**
Interest income included in profit	
Interest foregone	**2**

Potential

In addition to the non-performing lending disclosed above, lendings which were current as to payment of interes but where concerns existed about the ability of the borrowers to comply with loan repayment terms in the near

	2004	2003	2002	2001	2000
	£m	£m	£m	£m	£m
Potential problem lending	**1,450**	1,696	1,734	1,423	1,142

The figures shown for potential problem lending are not indicative of the losses that might arise should the credi lending deteriorate since they do not take into accoun

Cross borde

The business of Lloyds TSB Group involves significant exposures in non-local currencies. These cross bord comprise loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other i investments and any other monetary assets which are denominated in non-local currency. The following tables a of borrower, foreign outstandings which individually represent in excess of 1 per cent of Lloyds TSB Grou

	% of assets	Total £m	Governments and official institutions £m	Banks and other financial institutions £m	Commercial, industrial and other £m
As at 31 December 2004:					
Belgium	**3.1**	**7,030**	**793**	**6,161**	**76**
Germany	**2.6**	**5,778**	**238**	**5,117**	**423**
Netherlands	**1.5**	**3,455**	**395**	**2,170**	**890**
Japan	**1.4**	**3,139**	**512**	**1,037**	**1,590**
United States of America	**1.1**	**2,434**	**36**	**523**	**1,875**
As at 31 December 2003:					
Germany	2.3	4,553	284	3,851	418
Italy	1.7	3,510	2,411	759	340
Belgium	1.4	2,746	1,460	1,236	50
United States of America	1.2	2,371	45	1,109	1,217
Netherlands	1.2	2,343	431	950	962
As at 31 December 2002:					

Germany	3.1	6,511	57	5,624	830
United States of America	1.8	3,655	207	1,274	2,174
Italy	1.5	3,013	1,912	909	192
France	1.0	2,075	99	1,187	789

As at 31 December 2004, Belgium had commitments of £61 million, Germany had commitments of £589 millio
had commitments of £715 million, Japan had commitments of £228 million and United States of America had c

As at 31 December 2004, the countries with cross border outstandings of between 0.75 per cent and 1 per
amounting to £3,820 million in total, were Fr

As at 31 December 2003, the country with cross border outstandings of between 0.75 per cent and 1 per
amounting to £1,828 million in tot

As at 31 December 2002, the countries with cross border outstandings of between 0.75 per cent and 1 per
amounting to £5,080 million in total, were Japan, the Netherland

Market risk is the risk of loss arising from unexpected changes in financial prices, including interest rates, exch
bond, commodity and equity prices. It arises in all areas of Lloyds TSB Group s activities and is managed by a va
techniques. The Group s banking activities expose it to the risk of adverse movements in interest rates or exch
little or no exposure to equity or commodity risk. The Group s insurance activities also expose it to market r
pension schemes are exposed to significant risks from the constituent parts of their assets, primarily equity and in
and from the present value of

Limits to control market risk in respect of trading positions are recommended by the group asset and liability com
to review by Group Risk, to the group executive committee and authorised in total by the board. A combination
sensitivity limits is used, depending on the nature of the business activity. The group asset and liability com
Group Treasury for trading centres, ensures appropriate delegation

Trading is restricted to a number of specialist centres, authorised by Group Treasury, the most important centre b
Markets in London. The level of exposure is strictly controlled and monitored within approved limits by Group T
of the Group s trading activity is undertaken to meet the requirements of customers for foreign exchange
products. However, some interest rate and exchange rate positions are taken out using derivatives (including f
exchange contracts, interest rate swaps and forward rate agreements) and on-balance sheet instruments (mainly d
with the objective of earning a profit from favourable movements in market rates. Accordingly, these transactions
the accounts at their fair value and gains and losses are shown in the profit and loss account as dealing pro

Market risk in the wholesale banking books is managed in the UK by Financial Markets in London, and intern
authorised local treasury operation in each overseas centre. The levels of exposure within these books are
monitored within approved limits, both locally and also centrally by Group Treasury. Active managemen
necessary to meet customer requirements and changing market

Market risk in the Group s retail portfolios and in the Group s capital funds arises from the different repricing ch
Group s banking assets and liabilities and is managed by Group Balance She

Limits to control interest rate risk within the Group s UK retail portfolios are set out in the policy for Grou
Management, which is established by the group asset and liability committee and ratified by the Group board. T
optimise the stability of future net interest income, and this is achieved by entering into hedging transactions usi
swaps and other financial instruments. Both short and long-term interest rate parameters are applied to man
balance sheet. Some centres have, in addition, adopted benchmark profiles for investment of interest rate insensiti
approved by G

Derivatives are used to meet customers financial needs; as part of the Group s trading activities; and to reduc
exposure to fluctuations in interest and exchange rates. The principal derivatives used by the Group are interes
(including interest rate swaps, forward rate agreements and options) and exchange rate contracts (including f
exchange contracts, currency swaps and options). Particular attention is paid to the liquidity of the markets and pro
the Group trades to seek to ensure that there are no undue concentrations of ac

Market risk exposures from the insurance businesses are controlled via approved investment policies consistent w
overall risk appetite and regularly reviewed by the group asset and liabi

The group asset and liability committee liaises with the pension scheme trustees with regard to strategies for the
pension

Trading risk exposures from ban

The primary measure within the Group is the Value at Risk (VaR) methodology, which incorporates the volati market prices and the correlation of their movements. Based on the commonly used 95 per cent confidence l positions are held overnight and using observation periods of the preceding three years, the VaR for t 31 December 2004 and 2003 based on the Group s global trading positions was as detailed in the table belo aggregates potential loss measures from opti

	31 December 2004				31 December 2003		
	Closing	**Average**	**Maximum**	**Minimum**	Closing	Average	Maximum
	£m	**£m**	**£m**	**£m**	£m	£m	£m
Interest rate risk	**0.7**	**0.9**	**1.7**	**0.5**	0.7	0.8	1.8
Foreign exchange risk	**0.2**	**0.3**	**0.6**	**0.2**	0.3	0.7	1.0
Equity risk	**0.0**	**0.0**	**0.0**	**0.0**	0.0	0.0	0.1
Total VaR (no diversification)	**0.9**	**1.3**	**2.0**	**0.8**	1.0	1.5	2.6

Measurement techniques. A variety of techniques are used to quantify the market risk arising from the Grou trading activities. These reflect the nature of the business activity, and include simple interest rate gapping, positions, sensitivity analysis and value at risk. Stress testing and scenario analysis are also used in certain po Group level, to simulate extreme conditions to supplement these

The risk of loss measured by the VaR model is the potential loss in earnings. The total and average trading VaR d any diversification benefit across the three risk types. The maximum and minimum VaR reported for each risk c necessarily occur on the same day as the maximum and minimum VaR repor

There are some limitations to the VaR

The model assumes that changes in the underlying asset returns can be modelled by a normal distribution. This an approximation of reality that may not reflect all circumstances.
The use of a confidence limit does not convey any information about potential losses on occasions when the co is exceeded. In times of extreme market movements actual losses may be significantly greater than the VaR nu testing is used to supplement VaR to estimate the impact of extreme events.
Any model that forecasts the future based on historic data is implicitly assuming that the conditions that genera will remain true in the future. Stress testing and using more than one VaR methodology for some local markets the wider market risk framework.
Periods of severe market illiquidity, both in terms of the extent of the illiquidity and the time that it lasts, could might not be possible to hedge, or close, all positions in the timescales assumed in the VaR model.
VaR is calculated at the close of business each day, which excludes the profit and loss impact of intra-day trad
VaR is not well suited to options positions. As a result these positions are controlled by additional sensitivity li

In summary, although VaR is an important component of the Group s approach to managing trading supplemented by position and sensitivity limits an

Structural interest risk exposures from ban

The Group s non-trading exposure is summarised in the form of an interest rate repricing table, as set out i financial statements. Items are allocated to time bands by reference to the earlier of the next contractual interes date and the maturity date. However, the table does not take into account the effect of interest rate options used b hedg

The simulation models used by the Group include assumptions about the relationships between customer behavio of interest rates; the anticipated level of future business is also taken into account. The accuracy of these assumptio the efficiency of hedging transactions. The assumptions are regularly updated and the projected exposure is activ accordance with group asset and liability co

It is estimated that a hypothetical immediate and sustained 100 basis point increase in interest rates on 1 Janua
decrease net interest income by £80.7 million for the 12 months to 31 December 2005, while a hypothetical
sustained 100 basis point decrease in interest rates would increase net interest income by £76.3 million. An analy
is

	UK £m	North America £m	Asia & Australasia £m	Europe & Middle East £m	Tota 2005 £m
Change in net interest income from a +100 basis point shift in yield curves	**(48.7)**	**3.5**	**(1.0)**	**(34.5)**	**(80.7**
Change in net interest income from a 100 basis point shift in yield curves	**44.3**	**(3.5)**	**1.0**	**34.5**	**76.3**

The analysis above is subject to certain simplifying assumptions including, but not limited to, all rates o
worldwide move simultaneously by the same amount; all positions in the wholesale books run to maturity;
management action in response to movements in interest rates, in particular no changes to pr

In practice, positions in both the retail and wholesale books are actively managed and actual impact on net intere
be differen

In the Group s retail portfolios, including mortgages, and in the Group s capital funds, exposure arises from the
characteristics of the Group s banking assets and liabilities and is managed by Group Balance Sheet Manag
direction of the group asset and liabi

Liabilities arising in the course of business from the Group s retail banking business fall into two b

those which are insensitive to interest rate movements, non-interest bearing liabilities such as shareholders fu
interest-free or very low interest current account deposits; and
those which are sensitive to interest rate movements, primarily savings deposits bearing interest rates which ar
Group s discretion (managed rate liabilities) but which for competitive reasons generally reflect changes in
England s base rate.
There is a relatively small volume of naturally arising banking liabilities whose interest rate is contractually fix
periods of u

Most banking assets, with the exception of such non-interest earning items as premises, are sensitive to interest ra
There is a large volume of managed rate assets such as variable rate mortgage loans and these may be conside
offset to managed rate liabilities. However many assets, such as personal loans and fixed rate mortgages, bear in
contractually fixed for periods of up to five y

Interest rate risk arises from the mismatch between interest rate insensitive liabilities and interest rate sensi
between the differing contractual periods for which interest rates are fixed on interest rate sensitive assets and lia
Balance Sheet Management manages this risk centrally by offsetting against each other any matching interest rate
and liabilities; acquiring new financial assets and liabilities as matching hedges against net balances of mismatch
sensitive banking liabilities and assets, respectively; and acquiring new financial assets with interest rates contrac
a range of periods up to five years as hedges for net balances of interest rate insens

The financial assets and liabilities referred to above are acquired by way of internal transactions between Group
Management and Financial Markets in London, typically in the form of interest rate swaps and lo

Structural interest rate risk can also arise from the wholesale banking books in the UK, where it is managed by Fin
in London, and internationally, where it is managed by an authorised local treasury operation in each overseas ce
of exposure within these books are controlled and monitored within approved limits locally and centrally. Limits a
international businesses on interest rate gaps or, where more app

Foreign exchange exposures from ban

Foreign exchange exposures comprise those originating in treasury trading activities and structural foreign excha
which arise from investment in the Group s ove

The corporate and retail businesses incur foreign exchange risk in the course of providing services to their custome
reside in the authorised trading centres who are allocated exposure limits. The limits are monitored daily by the lo
reported to Group Treasury. Group Treasury calculates the associated VaR as shown in the table on the

Risk arises from the Group s investments in its overseas operations. The Group s structural foreign cu
represented by the net asset value of the holding company s foreign currency exchange equity and subordinated
in its subsidiaries and branches. Gains or losses on structural foreign currency exposures are taken to ret

The structural position is managed by Lloyds TSB Group Capital Funds having regard to the currency compositio
risk-weighted assets and reported to the group asset and liability committee on a monthly basis. The objectiv
effect of exchange rate movements on the published

The Group s structural position at 31 December 2004 is set out in note 47d to the financial statements. The positio
31 December 2004 a hypothetical increase of 10 per cent in the value of sterling against all other currencies would
£82 million reduction in reserves, and vice versa. On this basis, there would have been no material impact
Group s

Market risk exposures in the insura

Market risk exposure depends upon the nature of the fu

With-profits funds are managed in accordance with the relevant fund s Principles and Practices of Financial M
This leads to assets and liabilities that are mismatched with the aim of generating a higher rate of return to mee
policyholders expectations.

Unit-linked liabilities are matched with the same assets that are used to define the liability but future fee incom
upon the performance of these assets.
For other insurance liabilities the investment strategy is determined by the term and nature of the underlying li
asset/liability matching positions are actively monitored. The aim is to invest in assets such that the cash flows
investments will match those on the projected future liabilities. Actuarial tools are used to project and match th
It is not possible to eliminate risk completely as the timing of insured events is uncertain and bonds are not ava
the required maturities. As a result the cash flows cannot be precisely matched and so sensitivity tests are used
extent of the mismatch.
Investment strategy for surplus assets held in excess of liabilities takes account of the regulatory and internal b
requirements for capital to be held to support the business now and in the future. Surplus assets are held primar
portfolios: the surplus in the non-participating fund within the Long-Term Fund of Scottish Widows plc, assets
shareholder funds of life assurance companies and an investment portfolio within the General Insurance busine
Market risks are monitored using stocha

The surplus in the Non-Participating Fund of Scottish Widows plc exists to provide the Long-Term Fund wi
working capital. The surplus also forms a capital reserve to support the investments managed on behalf of the Wi
of Scottish Widows plc. With-profits business involves guaranteed benefits; in adverse market conditions the su
called upon to support with-profits benefits. As a consequence this fund is currently invested in a mix of equit
properties, fixed interest investments and cash that takes into account the mix in the With-Profits Fund. This inv
helps maintain the value of the reserve as a proportion of the underlying With-Profits Fund. The existence and inv
the surplus in the Non-Participating Fund can therefore be considered as structural rather than as a traded portfo
GAAP the portfolio is shown at market value and gains and losses are recognised in the profit an

Assets held in shareholder funds are invested in money market funds, gilts and investment grade bonds so as to red
statutory insolvency in the event of r

The General Insurance portfolio is invested in a mixture of assets: cash, bond

The investment policy together with appropriate limits including the limit to be applied to the equity component a
the group asset and liability committee supported b

Investment holdings are diversified across markets and, within markets, across sectors. Holdings of indiv
diversified to minimise specific risk and large individual exposures are monitored closely. For assets held outs
funds, investments are only permitted in countries and markets which are sufficiently regula

In common with other organisations in the life assurance industry, prior to its demutualisation Scottish Widows
which contained potentially valuable options and guarantees, including guaranteed annuity option policies. A guar
option policy is a pension policy that provides a cash benefit at retirement age, which can be converted into
specified minimum rate. Under the terms of the transfer of the Scottish Widows business, a separate memorandu
created within the with-profits fund called the Additional Account which is available, inter alia, to meet any add
providing guaranteed benefits on transferred policies. The Additional Account had a value at 31 December 2004
(2003: £1.4 billion); to the extent that it is insufficient to provide these benefits any shortfall would be met by t

Since demutualisation in 2000, Scottish Widows continued to write policies containing similar features, although
products written has since reduced and is now not significant. The Additional Account is not available to meet
cost of providing the benefits on

The eventual cost of providing benefits on the life assurance policies written both pre and post demutualisatio
upon a large number of variables, including future interest rates and equity values, demographic factors
persistency and mortality, and the proportion of policyholders who seek to exercise their options. The ultimat
impact upon the Lloyds TSB Group, will not be known for many years. However, Scottish Widows has deve
continue to develop, an actuarial model to assist in the management of the With Profits Fund and to m
requirements. The model allows management to estimate the effects of different economic scenarios upon the fin
of the fund and consider the implications of different management actions. Output from this model indicates th
cost of providing benefits on policies containing features such as options and guarantees varies widely and, de
economic scenario encountered, could result in the Lloyds TSB Group incurring a liability. Based on the informati
present, having considered the range of possible outcomes, and after making allowance for the effect of p
management actions, the Lloyds TSB Group currently considers that no provisio

Equity derivatives are used by the Group to match equivalent liabilities arising from some of its retail products. D
also be used for efficient portfolio management purposes in client funds where such activity is in accordance
policy and the cust

Options and guarantees are incorporated in new insurance products only after careful consideration of the ris
issues that they present. This occurs as part of the new product approval process (see Product and service

The composition, and value, of both the Scottish Widows plc Non-Participating Fund and the General Insuranc
reported to Group Risk on a monthly basis and a VaR is calculated which is presented to the group asset and liabi
The risk of loss measured by the VaR model is the potential loss in earnings over a given time horizon. The Va
used is the same in all respects as that used for the traded risk in banking activities, except that in the case of
model maps the portfolio composition onto a series of appropriate indices by region and sector. In additi
calculated based on a 99 per cent confidence level and a ten day holding period. The figures quoted below are the
portfolios with no allowance for diversification between portfolios or asset classes and represents the potential l

The following table shows closing, average, maximum and minimum VaR for the years ended 31 December 2004
99 per cent confidenc

	31 December 2004				31 December 2003		
	Closing	**Average**	**Maximum**	**Minimum**	Closing	Average	Maximu
	£m	**£m**	**£m**	**£m**	£m	£m	£m
Interest rate risk	**15.5**	**16.1**	**17.9**	**11.2**	15.1	16.3	24.3
Foreign exchange risk	**2.4**	**2.7**	**3.4**	**2.2**	3.6	4.0	4.6
Equity risk	**55.2**	**54.2**	**56.4**	**51.6**	52.1	63.0	80.0
Total VaR	**73.1**	**73.0**	**75.9**	**67.1**	70.8	83.3	107.5

The risk of loss arising from the sensitivity of profits to movements in insurance claims, expenses and persistency
expectation. It also covers the risk of inadequate underwriting and/or reinsurance of insured risks and movemen
providing benefits from the Group s pension schemes that result from social and dem

Control is exercised primarily through a suitable combination of high level committees/boards. For the life assura
the key control body is the Scottish Widows plc board with the more significant risks also being subject to
Lloyds TSB group executive committee and/or the Lloyds TSB Group board. For the general insurance bus
control body is Lloyds TSB Insurance executive committee with the more significant risks again being subject
group executive committee and/or Lloyds TSB Group board approval. All Group pension scheme issues are
group asset and liabi

Insurance risks are measured through deterministic studies of the impact of different insurance market scenari
free assets of the business together with relevant stocha

Limits are used as a control mechanism for insurance risk

Insurance

Some insurance risks are retained while others are reinsured with external underwriters. The retained risk le
controlled and monitored, with close attention being paid to the analysis of underwriting experience, claim
product design, policy wordings, adequacy of reserves, solvency management and regulator

General Insurance exposure to accumulations of risk and possible catastrophes is mitigated by reinsurance arran
are broadly spread over different reinsurers. Detailed modelling, including that of the probable maximum los
catastrophe scenarios, supports the choice of reinsurance arrangements. Appropriate reinsurance arrangements al
the life and pensions businesses with significant mortality risk and morbidity risk being transferred to our ch

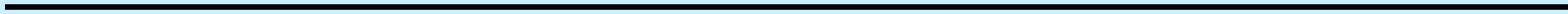
Options and guarantees are incorporated in new insurance products only after careful consideration of the ri
issues that they present. This occurs as part of the new product approval process (see Product and service

Expenses are monitored by an analysis of the Group s experience relative to budget. Reasons for any significant
expectation are investigated and remedi

Persistency rates are regularly assessed by reference to appropri

O

The risk of loss resulting from inadequate or failed internal processes and systems, or from people related or exter
internal purposes, reputational impact is



Businesses have primary responsibility for identifying and managing their operations risks. They employ i
techniques to reduce their likelihood or impact to tolerable levels within the Group s risk appetite. Where ap
mitigated by wa

The Group has defined high-level operations risk policies to seek to ensure a wide-ranging and consistent a
identification and management of operations risk and a standard methodology to ensure consistency in the
assessment and management of o

Group Risk provides general guidance on operations risk related issues, including regulatory changes and devel
measurement and management of operations risk, to promote best practice throughout the Group. It keeps un
review and improvement all aspects of operations risk management to reflect developments in industry be
regulatory

The Group applies appropriate new product review processes to provide assurance that risks inherent in new prod
identified

Legal and r

The risk of financial loss or reputational damage arising from failing to comply with the laws, regulations or code
the financial services industry. The Group s business is regulated overall by the Financial Services Auth
additionally by local regulators in offshore and oversea

Each business has a nominated individual with compliance oversight responsibility under FSA rules. The role o
is to ensure that management has in place within the business a control structure which creates awareness o
regulations to which the Group is subject, and to monitor and report on adherence to these rules a

All compliance personnel also have a reporting line to the group compliance director, who sets compliance stand
Group and provides independent reporting and assessment to the board and bus

Group Compliance includes a dedicated unit, led by the group financial crime director, which is responsible for en
Group has effective processes in place to identify and report on suspicious transactions and customers, in
worldwide fight against f

The group compliance director has access to the chairman, group chief executive and members of senio

Customer t

The risk of financial loss or reputational damage arising from inappropriate or poor customer treatment or
cu

Lloyds TSB Group is committed to the fair treatment of its customers. A range of management information meas
across the Group to support the tracking of key customer treatment indicators. Group Risk and Group Audit are rec
regularly on customer treatment risk, management information trends and on compliance with the Gro

Service improvements are monitored by customer satisfaction surveys. The results of the research are fed into the
Index, which measures ongoing performance against five principal objectives: customer understanding
responsibility; expertise; and overall service quality

A framework is in place to guide the consideration and documentation of customer treatment risk when developi
procedures. The Group has defined benchmark standards in all the key areas. The divisions are required to meet

Trends across all the CARE Index categories are monitored and fed into a programme of continuous cu
improvement. The Group also provides its staff with clear FSA compliant guidelines and processes for dealing

Customer remedia

A current industry issue concerns the sale of life assurance products related to the repayment of residential mortg
endowments). At sale, the premium is set at a level such that the projected benefits, including an estimate of gro
of the policy and allowing for an estimate of the expenses to be charged, will equal or exceed the mortga
investment returns have led to increased concern that the value of some of these policies will be less than the amo
repay the mortgage. Certain customers have complained that this risk was not properly explained to them at the t

During 2002, a review was carried out in conjunction with the FSA into sales of mortgage endowment and c
savings products made by the Abbey Life sales force between 1988 and its disposal by the Lloyds TSB Group in
Following this review the Group established a provision to meet the cost of compensation payments to customers
where past sales practices were found to have been deficient; a provision is also held against the estimated
payments to customers in respect of products sold by the Abbey Life sales force prior to 1988. During 2004 m
reviewed the adequacy of the provisions held in the light of experience and changing market conditions and an ad
of £12 million (2003: £56 million)

Mortgage endowments were also sold to customers through the branch networks of Lloyds TSB Bank, Lloyds TS
Cheltenham & Gloucester; these policies were either underwritten by life assurance companies within the Lloyds
by third parties. Provisions are held against the estimated cost of making redress payments to customers in respe
other past product sales where necessary. During 2004 management have again reviewed the adequacy of the
having regard to current complaint volumes and the level of payments being made and as a result provisions have
by £100 million (2003: £200 million). The ultimate cost remains highly uncertain and will be influenced by
beyond the control of management, such as regulatory actions, media interest and the performance of the fin
Consequently there is a risk that further provisions may be required in the future, although management is satisf
provisioning level

This comprises the risks arising from the adoption of the Group s agreed strategy and its implementation at corp
level. At corporate and business level these risks are managed through a numb

An annual strategic planning process is conducted at Lloyds TSB Group and business level and includes a q
qualitative assessment of the risks in th

The Group s strategy and those of its constituent businesses are reviewed and approved by the board. Re
provided to the group executive committee and the board on the progress of the Group s key strategies and pl
conducts oversight to ensure the business plans remain consistent with the G

Revenue and capital investment decisions require additional formal assessment and approval. Formal ris
conducted as part of the financial ap

Significant company mergers and acquisitions require specific approval by the board. In addition to the standar
conducted during a merger or acquisition, Group Risk conducts, where appropriate, an independent risk assessme
company and its proposed integration into the Lloy

A common approach is applied across the Group to assess the creation of shareholder value. This is measured by e
(the profit attributable to shareholders, less a notional charge for the equity invested in the business). The focu
profit allows the Group to compare the returns being made on capital employed in each business. The use of risk-b
capital and regulatory capital is closely monitored at business and Group level. The Group s economic capi
credit, market, insurance, business and op

Product ar

The risk of loss arising from the inherent characteristics, management or distribution of products or services, or
meet or exceed customer expectations and competitor offerings. For the Group to achieve its objective to max
shareholders over time, product life cycles must be effectively managed and new products developed to meet c

The Group is committed to the fair treatment of its customers. This is embedded into the processes indicated b
businesses have developed customer centric strategies for product and business development, marketing, selling

Businesses maintain a range of products to meet customers needs and the business strategy and are responsible fo
controlling product risks and compliance with applicab

Product planning and development. Businesses have formal processes for reviewing the range of their product
subject all product development to rigorous assessment. The assessment includes seeking to ensure that the produc
defined c

Product promotion, distribution and sales. Businesses have a defined channel distribution strategy for products,
the Group s distribution strategy. Businesses launching new products are responsible for ensuring compliance w
regulations and that the proposed sales activity is appropriate for the type of customer and their

All advertising and marketing material is required to comply with the Group s governing policy on business con
are required to have procedures in place to ensure that the material is fair, clear and not misleading bear
knowledge and sophistication of the customer. Any statement of fact should be substantiated through documentary
comparison should be made in a fair and balanced way; and any reference to past performance should clearly st

Businesses are required, prior to publication of any sales material, to seek confirmation that it complies with the
legal requirements of the jurisdiction in which the product is offered and marketed. Procedures require that terms
(to include mandates, agreements and other documentation) are approved by legal advisers and reviewe

New product approval. The Group defines a new product as a new or amended product that introduces a signific
risk profile at Group or business level. In line with defined policy, businesses provide divisional risk management
new products at an early stage of product or service development to ensure compliance with the Group s
strategy. Businesses are required to demonstrate that new products meet clearly defined customer needs and that th
mitigates the risks of unsuitable sales. Where appropriate, technical advice/approval is sought from specialist f
new products carrying the approval of divisional risk management and the businesses involved in their manufactu
offere

***Product performance*.** Businesses establish and monitor performance standards for all marketed products ac
indicators, for example sales volumes, customer service and risk profile. Significant deviations from thes
investigated and appropria

Change ma

The risk of financial loss or reputational damage arising from programmes or projects failing to deliver to requir
or timescale; or failing to implement char

To deliver the Group s strategic aims, change must be managed in an effective, risk-aware and appropriately co
throughout the organisation. The Group s Change Management Standards ensure appropriate control across the
and the approach is regularly benchmarked against other organisations ar

Changes that significantly impact customers or staff are managed as part of an overall change plan managed
change management committee. The committee ensures that the aggregate impact of the implementation of change
staff and systems is understood, managed

Governance, people an

This is the risk of loss from poor corporate governance at Group and business level. It includes sub-optimal
structuring, or failure to recruit, manage and retain appropriately skilled staff to achieve business objectives. G
managing governance, people and organisation risk is defined in the Group Policy Manual. It defines the wa
organised, the need for tight financial and operating controls, maintenance of a strong risk management and cont
need to benchmark against industry best practice and for businesses to conduct themselves with integrity, due

Management of risks. The Group sets high standards for the conduct of its business and values its reputation. Re
establishing an effective organisational structure is vested in Group and business management. Sound internal ris
practices are promoted through business directors who are ultimately responsible for identifying, measuring,
controlling the risks within their specific areas of

The Group seeks to identify and classify risks in a timely manner. The likelihood of risks crystallising and the sig
consequent impact on the business, the Group and its customers are evaluated. The Group s business control envi

ensure effective and efficient operational management; reliability, integrity and consistency of financial and other
compliance with governing laws and regulations. Business directors seek to ensure that material risks are reported
divisional risk officer, group executive director and

Information and communication. It is the Group s policy for the board and senior management at both Group a
to receive relevant, reliable and timely management information in line with business objectives to seek to ensu
are appropriately controlled, key risks are identified and monitored, decisions are implemented and regulatory

Audit responsibilities and rights. Group Audit has unrestricted access to all functions, property, reco
independently reviews adherence to the policies and processes that make up the control environment, dis
practices throughout the Group in the course of its monitoring and corrective action activities. The director of grou
to and meets regularly with the group chief executive and periodically with the a

People. The Group s approach to people management is to employ skilled, committed staff, working as a team f
customers and shareholders, who are given the opportunity to fulfil their potential; employ the highest ethic
behaviour and best practice management principles; and recruit on the basis of ability ar

Standards of behaviour. The Group has a code of business conduct, which applies to the group chief execu
finance director, and all other employees. It seeks to ensure that employees act with integrity and endeavour
levels of customer service. It promotes a working environment free from discrimination, harassment, bullying or v
any kind. Employees are encouraged and expected to alert management to suspected misconduct, fraud o
malpractice. The code as amended from time to time is available to the public on the Group s website at ww

Performance and reward management. The Group seeks to ensure that all employees understand their role, the
role and where it fits into the wider team and organisational context. It manages and measures employees
contribution to collective goals and recognises the contribution of individuals in the context of the pay
performance of the business in which they work and rewards

Training and development. The Group believes that long-term success depends on the quality and skills of its
has a joint responsibility with employees for their personal and career development to improve current perfo
enhance fu

Financ

The risk of financial failure arising from lack of liquidity or capital, poor management or poor quality/vo

Liquidity risk is defined as the risk of a loss arising from the Group s inability to meet its financial obligations
These obligations include the repayment of deposits on demand or at their contractual maturity; the repayment of l
other borrowings as they mature; the payment of insurance policy benefits, claims and surrenders; the pa
obligations as they become due; the payment of operating expenses and taxation; the payment of dividends to sh
ability to fund new and existing loan commitments; and the ability to take advantage of new business

The international standard for measuring capital adequacy is the risk asset ratio, which relates to on- and of
exposures weighted according to broad categories of risk. The Group s capital ratios, calculated in line with the
the FSA, are set out in det

A policy is in place which requires a common methodology to measuring liquidity across the Group. The method
liquidity ratio calculated by taking the sum of liquid assets, five-day wholesale inflows and back-up lines, and the
by the sum of five-day wholesale outflows and a percentage of retail maturities and contingent claims drawabl
five days. The Group complies with the FSA s liquidity requirements and with similar liquidity policies in place a
centres worldwide. Compliance is monitored by regular liquidity returns to Group Treasury. Work is ongoin
Group s compliance with the new liquidity framework being proposed by the FSA. The liquidity policy requir
local treasury operations to maintain a liquidity ratio of over 100 per cent, in addition to ensuring compli
regulatory requirements. It is the responsibility of local line management to ensure that the liquidity policy is met a
and maturities of assets and liabilities are continually managed and appropriately diversified to avoid any undue c
market conditions evolve. Compliance is monitored by regular liquidity returns to G

For non-linked funds investments are arranged to minimise the possibility of being a distressed seller whilst a
investing to meet policyholder obligations. For unit-linked business, deferral provisions are designed to give
linked assets without being

Lloyds TSB Group and its regulated subsidiary banks have been allocated an Individual Capital Ratio by the FSA
has agreed a formal buffer to be maintained in addition to the Individual Capital Ratio. Actual or prospective
formal buffer must be notified to the FSA, together with proposed remedial action; no such notifications have bee
2004. Informally, a further buffer is maintained. In addition, the board has agreed a maximum limit of the pro
instruments in the capital base. Risk-weighted assets are monitored by businesses, while capital is contr

Capital ratios are a key factor in the Group s budgeting and planning processes and updates of expected ra
regularly during the year. Capital raised takes account of expected growth and currency of risk assets and als
sensitivity of the Group s capital to movements in

The Group seeks to use appropriate accounting policies, consistently applied and supported by reasonab
judgements and estimates. Each reporting entity within the Group has a finance function which is responsible for
of financial, management and regulatory information. It is the responsibility of Group Finance to produc
information for use internally and to meet external regulatory and statutory reporting requirements. Group F
businesses and reporting entities to follow common processes and repor

Businesses or reporting entities have formal month-end and quarter-end procedures in place for preparation of m
financial accounts respectively, review and approval of management accounts at a determined level of
consistency with financial accounts, and preparation of forecasts and detailed annual budgets that are subject to
and approval. They are further required to implement measures to monitor performance at local level to ider
fluctuations or u

Liquidity and cap

Li

The principal sources of liquidity for Lloyds TSB Group plc are dividends received from its directly owned subsi
Lloyds TSB Bank, and loans from this and other Lloyds TSB Group companies. The ability of Lloyds T
dividends, or for Lloyds TSB Bank or other Lloyds TSB Group companies to make loans to Lloyds TSB Group
a number of factors, including their own regulatory capital requirements, distributable reserves and financi

Lloyds TSB Group plc is also able to raise funds by issuing loan capital or equity, although in practice Lloyds
has never issued equity for this purpose and the majority of Lloyds TSB Group s loan capital has been issue
Bank. As at 31 December 2004, Lloyds TSB Group plc had £1,358 million of subordinated debt in issuance
£10,252 million for the consolidated Lloyds TSB Group. The cost and availability of subordinated debt finance ar
credit ratings. A reduction in these ratings could increase the cost and could reduce market access. At 31 Dece
credit ratings of Lloyds TSB Bank w

	Senior debt
Moody s	**Aaa**
Standard & Poor s	**AA**
Fitch	**AA+**

The ratings outlook from Moody s and Fitch for Lloyds TSB Bank is stable. The Standard & Poor s rating o
These credit ratings are not a recommendation to buy, hold or sell any security; and each rating shou
independently of eve

A significant part of the liquidity of the Group s banking businesses arises from their ability to generate cust
substantial proportion of the customer deposit base is made up of current and savings accounts which, althou
demand, have traditionally provided a stable source of funding. During 2004, amounts deposited by custome
£5,566 million from £116,496 million at 31 December 2003 to £122,062 million at 31 December 2004. These cus
are supplemented by the issue of subordinated loan capital and wholesale funding sources in the capital markets,
direct customer contracts. Wholesale funding sources include deposits taken on the inter-bank market, certificates
and repurchase agreements, a Euro Medium Term Note programme, of which £5,097 million had been utilised for
at 31 December 2004, and a commercial paper programme, under which £3,281 million had been utilised at 31 D

The ability to sell assets quickly is also an important source of liquidity for the Group s banking businesses.
sizeable balances of marketable debt securities which could be disposed of to provide additional funding should

The following table sets out the amounts and maturities of Lloyds TSB Group s contractual cash obligations

	Within one year £m	One to three years £m	Three to five years £m	Over five years £m	Total £m
Long-term debt dated		**549**	**470**	**3,381**	**4,400**
Euro Medium Term Note programme	**167**	**347**	**584**	**3,999**	**5,097**
Commercial paper programme	**3,281**				**3,281**
Securitisation vehicles	**3,028**				**3,028**

Finance leases	**2**	**3**	**1**		**6**
Operating leases	**208**	**397**	**376**	**342**	**1,323**
Capital commitments	**87**	**63**			**150**
Other purchase obligations	**360**	**600**	**390**	**210**	**1,560**
	7,133	**1,959**	**1,821**	**7,932**	**18,84**

Other purchase obligations include amounts expected to be payable in respect of material contracts entered into TSB Group for the provision of outsourced and other services. The cost of these services will be charged to the account as it is incurred. The Lloyds TSB Group also has a constructive obligation to ensure that its defined benefit schemes remain adequately funded. The amount and timing of the Lloyds TSB Group s cash contr schemes is uncertain and will be affected by factors such as future investment returns and demographic change Group expects to make cash contributions of approximately £425 million to these schemes in 2005. The ta excludes details of future cash flows related to certain insurance liabilities due to uncertainty as to their amou

At 31 December 2004, Lloyds TSB Group also had £5,852 million of undated long-term de

Off-balance sheet

The following table sets out the amounts and maturities of Lloyds TSB Group s other commercial commitments
2004. These commitments are not included in Lloyds TSB Group s consolidate

	Within one year £m	One to three years £m	Three to five years £m	Over years £m
Acceptances	**67**	**3**	**1**	
Guarantees	**5,927**	**332**	**423**	**104**
Other contingent liabilities	**1,381**	**145**	**51**	**92**
Total contingent liabilities	**7,375**	**480**	**475**	**196**
Lending commitments	**64,491**	**9,060**	**7,564**	**2,090**
Other commitments	**2,000**	**21**	**61**	**3**
Total commitments	**66,491**	**9,081**	**7,625**	**2,093**
Total contingents and commitments	**73,866**	**9,561**	**8,100**	**2,289**

Lending commitments are agreements to lend to customers in accordance with contractual provisions; these
specified period or, as in the case of credit cards and overdrafts, represent a revolving credit facility which can be
any time, provided that the agreement has not been terminated. The total amounts of unused commitments do
represent future cash requirements, in that commitments often expire without bei

Lloyds TSB Group s banking businesses are also exposed to liquidity risk through the provision of securitis
certain corporate customers. Lloyds TSB Group currently offers securitisation facilities to its corporate and finar
client base through two conduit securitisation vehicles, Cancara Asset Securitisation Limited (Cancara) and
(No.2) Limited (Obelisk). These are funded in the global asset-backed commercial paper market. Cancara is th
sponsored by Lloyds TSB Bank plc, was established in 2002 and commenced funding in 2003. Cancara is div
subgroups

a) the issuer companies, Cancara and Cancara Asset Securitisation LLC (Cancara LLC), which issue the comm
US and Euro asset-backed commercial paper markets to third party investors and are bankruptcy remote special
liability companies. Cancara is wholly owned by an independent charitable trust; Cancara LLC is a subsidi

b) the purchasing companies, Gresham Receivables Nos. 1, 2 (UK), 3, 4 and 5 Limited, which purchase customer
fund these via a secured loan or discounted note from Cancara, are bankruptcy remote special purpose vehicl
owned by one or more independent charit

c) the investment purchasing companies, Dragon Securities Nos. 1, 2, 3, 4, 5, 6 and 7 Limited, which purcha
securities (backed by third party assets) from the market and initially also from Lloyds TSB Group. As Lloyds TS
investment adviser to the investment purchasing companies and receives a performance related fee, the
consolidated by Lloyds TSB Group under the provisions of Financial Reporting Standard 5 as qua

Other than certain third party asset-backed securities mentioned above, Lloyds TSB Group does not sell its o
other purchasing companies or issuer companies nor does it, or any of its subsidiaries or affiliates, have an affi
ownership control or otherwise to these companies. However, Lloyds TSB Group does provide liquidity faciliti
purchasing and investment purchasing companies to fund short-term cash deficits that may arise through tim
between cash receipts from the receivables and cash payments to the holders of the commercial paper. As at 31 D
Lloyds TSB Bank plc provided asset-backed commercial paper liquidity support facilities to the purchas
investment purchasing companies and Cancara totalling approximately £4.4 billion. As of the same date total as
purchasing companies, investment purchasing companies and Cancara totalled approximately £4.4 billion, of wh
has been consolidated into the Lloyds TSB Group

At 31 December 2004 Lloyds TSB Group also acted as sponsor to an additional conduit securitisation purchasing
This is wholly owned by an independent trust and administered by a third party. This entity purchases securities
from customers funded by secured lending from a third party, which in turn issues asset-backed commercial pap
Lloyds TSB Group does not sell its own receivables to this entity, but the assets and obligations of Obelisk
Lloyds TSB Group s consolidated balance sheet. Lloyds TSB Group provides short-term asset-backed commerci

support facilities on commercial terms to the issuers of the commercial paper, for use in the event of a market dist
they be unable to roll over maturing commercial paper or obtain alternative sour

As at 31 December 2004 Obelisk held assets of approximately £0.2 billion, primarily loans and investments. Llo
provided asset-backed commercial paper liquidity support facilities of approximate

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Within Lloyds TSB Group s insurance and investments businesses, the principal sources of liquidity are premium
policyholders, charges levied upon policyholders, investment income and the proceeds from the sale and maturity
The investment policies followed by Lloyds TSB Group s life assurance companies take account of antic
requirements including by matching the cash inflows with projected liabilities where appropriate. Cash deposits an
government securities are available to provide liquidity to cover any higher than expected

Based upon the levels of resources within the banking and insurance and investments businesses and the ability
Group to access the wholesale money markets or issue debt securities should the need arise, Lloyds TSB Group
overall liquidity is sufficient to meet current obligations to customers, policyholders and debt holders, support e
future changes in asset and liability levels and carry on nor

Ca

The total capital resources of Lloyds TSB Group are

	31 December 2004 £m	31 December 2003 £m	31 December 2002 £m
Minority interests (equity and non-equity)	**596**	727	731
Called-up share capital	**1,419**	1,418	1,416
Share premium account	**1,145**	1,136	1,093
Merger reserve	**343**	343	343
Profit and loss account	**7,070**	6,727	5,091
Shareholders funds (equity and non-equity)	**9,977**	9,624	7,943
	10,573	10,351	8,674
Undated loan capital	**5,852**	5,959	5,496
Dated loan capital	**4,400**	4,495	4,672
	20,825	20,805	18,842

Lloyds TSB Group s total capital resources increased by £20 million during 2004. Minority interests were £1
following the repayment of third party investments in certain structured finance transactions which were wound
Shareholders funds increased by £353 million mainly due to retained profits, partly offset by actuarial losses
Lloyds TSB Group s post-retirement benefit schemes. Loan capital decreased by £202 million due to negati
movements and the fact that loan capital repayments have exceeded new iss

Lloy

The Group s regulatory capital is divided into tiers defined by the European Community Banking Consolida
implemented in the UK by the FSA s Interim Prudential Sourcebook for Banks. Tier 1 comprises mainly shareh
1 capital instruments and minority interests, after deducting goodwill and other intangible assets. Tier 2 compri
debt provisions, and qualifying subordinated loan capital, with restrictions on the amount of general provisions
which may be included. Total capital is reduced by deducting investments in subsidiaries and associate
consolidated for regulatory purposes and investments in the capital of other credit/financial institutions. In the
TSB Group, this means that the net assets of its life assurance and general insurance businesses are deducted f
reg

Risk-weighted assets are determined according to a broad categorisation of the nature of each asset or exposure a
and, for the trading book, by taking into account mark

	31 December 2004 £m	31 December 2003 £m	31 December 2002 £m
Capital:			
Tier 1	**11,725**	11,223	9,442
Tier 2	**8,800**	8,935	8,846
	20,525	20,158	18,288
Supervisory deductions	**(7,252)**	(6,898)	(6,573)
Total regulatory capital	**13,273**	13,260	11,715
Total risk-weighted assets	**132,173**	117,732	122,411
Risk asset ratios:			
Total capital	**10.0%**	11.3%	9.6%
Tier 1	**8.9%**	9.5%	7.7%
Post-tax return on average risk-weighted assets	**2.01%**	2.63%	1.62%

At 31 December 2004, the risk asset ratios were 10.0 per cent for total capital and 8.9 per cent for tier 1 capital. T
tier 1 capital ratio appears higher than would perhaps be expected and reflects the higher level of supervis
resulting from the Lloyds TSB Group s significant investment in its life assur

The Lloyds TSB Group s capital management policy is focused on optimising value for shareholders. There is
delivering organic growth and expected capital retentions are sufficient to support planned levels of gro
management also wishes to maintain the flexibility to make value enhancing in market acquisitions and there
there are no plans to return capital to shareholders other than by way of dividend payments. Management will k
for the utilisation of capita

There are strict limits imposed by the regulatory authorities as to the proportion of the Lloyds TSB Group s r
base that can be made up of subordinated debt and preferred securities. The Lloyds TSB Group s capacity t
capital for regulatory purposes increases as profits are retained; at 31 December 2004, the Lloyds TSB Group
raise approximately £2,900 million of tier 2 debt capital, compared to approximately £2,300 million at 31 Decem
increase reflects the effects of retained profits and favourable exchange rate movements. The unpredictable nature
in the value of the investments supporting the long-term assurance funds could cause the amount of qualifying tier
restricted because of falling tier 1 resources. The Lloyds TSB Group seeks to ensure that even in the event of such
total capital ratio will re

During 2004, total capital for regulatory purposes increased by £13 million to £13,273 million. Tier 1 capit
£502 million, mainly as a result of profit retentions. However, tier 2 capital decreased by £135 million lar
reduction in the Lloyds TSB Group s general bad debt provision. There was an increase in supervisо
£354 million, mainly as a result of an increase of £300 million in the long-term assurance business attributable to t
to £6,781 million, from £6,481 million in D

Life assura

The principal subsidiaries involved in the Group s life assurance operations during the year were Scottish Wido
Widows , the Group s principal provider of life assurance, pensions and investment products, which ho
with-profits fund managed by the Lloyds TSB Group), Scottish Widows Annuities Limited (a subsidiary of Scottis
accepts the reinsurance of annuity business from its parent), Abbey Life Assurance Company Limited (Abbey
TSB Life Assurance Company Limited (Lloyds TSB Life). Since March 2000 both Abbey Life and Lloy
continued to administer existing policies and have undertaken only limited new business. No change in this activit
in respect of Abbey Life. On 31 December 2004, Lloyds TSB Life ceased trading and transferred most of its assets
business to Sc

Available ca

Available capital resources represent the excess of assets over liabilities calculated in accordance with detailed r
issued by the FSA. Different rules apply depending on the nature of the fund, as

Statutory basis. Assets are generally valued on a basis consistent with that used for accounting purposes (with the
in certain cases, the value attributed to assets is limited) and which follows a market value approach where pos
express permission of the FSA, an intangible asset can be recognised which represents the present value of fu
prudent margins on business written. The liabilities are calculated using a projection of future cash flows after
assumptions about matters such as investment return, expenses and mortality. Discount rates used to value the li
with reference to the risk adjusted yields on the underlying assets in accordance with the FSA rules. Other assump
on recent actual experience, supplemented by industry information where appropriate. The assessment of liab
include future bonuses for with-profits policies that are at the discretion of the Company, but does incl
policyholder options likely t

Realistic basis. The FSA requires each life assurance company which contains a with-profits fund in excess
including Scottish Widows, to carry out a realistic valuation of that fund. The word realistic in th
terminology used for reporting to the FSA and is an assessment of the financial position of a with-profits fund cal
prescribed methodology. The methodology has the effect of limiting the assumed average future investme
risk-free rate and represents a best estimate of a theoretical market value o

The valuation of with-profits assets in the With-Profits Fund on a realistic basis differs from the valuation on a sta
in respect of non-profits business written in the With-Profits Fund, it includes the present value of the anticipated
of the prudent margins for adverse deviation. The realistic valuation uses the market value of assets without the

the statutory bas

The realistic valuation of liabilities is carried out using a stochastic simulation model which values liabil
consistent with tradable market option contracts (a market-consistent basis). The model takes account of polic
on a best-estimate basis and includes an adjustment to reflect future uncertainties where the exercise of options by
might increase liabilities. Further details regarding the stochastic simulation model are given below in the
Options

Regulatory capita

Each life assurance company must retain sufficient capital to meet the regulatory capital requirements mandated b
basis of calculating the regulatory capital requirement is given below. For the companies described above, with t
Scottish Widows, the regulatory capital requirement is a combination of amounts held in respect of actuarial reserv
risk (the Long-Term Insurance Capital Requirement) and amounts required to cover various stress tests. The reg
requirement is deducted from the available capital resources to give statutor

For Scottish Widows, a further test is required in respect of the With-Profits Fund which compares the level of
capital to the statutory excess capital of the With-Profits Fund and, in circumstances where the realistic exc
less, the Company is required to hold additional capital to cover the shortfall. The realistic excess capital i
difference between realistic assets and realistic liabilities of the With-Profits Fund with a further deduction t
stress tests. Any additional capital requirement under this test is referred to as the With-Profits Insurance Capit

The determination of realistic liabilities of the With-Profits Fund in respect of Scottish Widows includes the v
transfers expected to be made from the With-Profits Fund to the Non-Participating Fund of Scottish Widows.
transfers include charges on policies where the associated costs are borne by the Non-Participating Fund. T
transfers exceeds the value of the costs which, in the case of Scottish Widows, results in the somewhat artificial
With-Profits Insurance Capital Component of ove

Constraints over available ca

Scottish Widows was created following the demutualisation of Scottish Widows Fund and Life Assurance Societ
terms of the demutualisation are governed by a Court-approved Scheme of Transfer (the Scheme) which, i
With-Profits Fund and a Non-Participating Fund and established protected capital support for the with-profits p
existence at the date of demutualisation. Much of that capital support is held in the Non-Participating Fund a
capital held in that fund is subject to the constrain

Requirement to maintain a Support Account. The Scheme requires the maintenance of a Support Ac
Non-Participating Fund. The quantum of the Support Account is calculated with reference to the value of assets b
with-profits policies which also existed at the date of demutualisation and must be maintained until the value
reaches a minimum level. Assets can only be transferred from the Non-Participating Fund if the value of the rem
the fund exceeds the value of the Support Account. Scottish Widows has obtained from the FSA permission to in
of the Support Account in assessing the realistic value of assets available to the With-Profits Fund. At 31 Dece
value of surplus admissible assets in the Non-Participating Fund was £2,222 million and the value of the Suppo
a

Further Support Account. The Further Support Account is an extra tier of capital support for the with-profits polic
at the date of demutualisation. The Scheme requires that assets can only be transferred from the Non-Participat
economic value of the remaining assets in the fund exceeds the aggregate of the Support Account and Further Su
Unlike the Support Account test, the economic value used for this test includes both admissible assets and the p
future profits of business written in the Non-Participating Fund or by any subsidiaries of that fund. The balanc
Support Account is expected to reduce to nil by the year 2030. At 31 December 2004, the net econon
Non-Participating Fund and its subsidiaries for the purposes of this test was £4,185 million and the combin
Support Account and Further Support Account was

Other restrictions in the Non-Participating Fund. The Scheme states that no amounts can be trans
Non-Participating Fund of Scottish Widows unless there are sufficient assets within the Long-Term Fu
policyholders reasonable expectations in light of liabilities in force at a year end and the new business expec
over the

Financial information calculated on a r

The estimated financial position of the With-Profits Fund of Scottish Widows at 31 December 2004, calculate
basis, is given in the following table, in the form that the information will be reported to the FSA. As a resu
support arrangements, it is considered appropriate to also disclose the realistic financial position of the L
Scottish Widows as a whole, which consists of both the With-Profits Fund and the Non-Part

	With-Profits Fund		Long-Term Fund
	£m		£m
Realistic value of assets of fund	17,814		22,012
Support arrangement assets (value of Support Account)	1,265		
Realistic value of assets available to the fund	19,079		22,012
Realistic value of liabilities of fund	(18,108	)	(17,827
Working capital for fund	971		4,185
Working capital ratio for fund	5.1	%	19.0

Scottish Widows continues to be well capitalised with the working capital ratios for the With-Profits Fund and
Fund being an estimated 5.1 per cent and 19.0 per ce

The realistic liabilities of the With-Profits Fund disclosed above include amounts payable from the With-Pro
Non-Participating Fund of Scottish Widows in respect of the shareholders share of future bonuses and other
result of the Scheme. The value of the liabilities excluding the shareholders share of future bonuses is £17,988 m
of the liabilities excluding the value placed on all interfund transfers is £17,353 million, and the value of exce
With-Profits Fund after eliminating those amounts (excluding the value of the Support Account) i

The following table reconciles the value of the Long-Term Fund of Scottish Widows quoted above to the total sha
attributable to the life assurance business of the Group, calculated on a modified statutory

	Li bu £n
Total shareholders funds on a modified statutory solvency basis* (see note 29 to the financial statements)	4,5
Adjustments to restate amounts onto an FSA statutory basis	(50
Available capital resources on an FSA statutory basis excluding the With-Profits Fund	4,0
Fund for future appropriations**	1,3
Total available capital resources on an FSA statutory basis	5,4
Capital resources held outside the Long-Term Fund of Scottish Widows	(1,
Net effect of adjustments to restate amounts onto a realistic basis	12
Excess assets in the Long-Term Fund of Scottish Widows on a realistic basis	4,1

* A reconciliation of the total shareholders funds on a modified statutory solvency basis (£4,581 million) to the amount inclu
balance sheet on an embedded value basis (£6,781 million) is included in note 29(h) to the financial statements.

** The fund for future appropriations included in the table relates to the With-Profits Fund of Scottish Widows only; the figure
note 29(h) to the financial statements (£1,379 million) includes £25 million in respect of the other life funds of the Group.

Capi

Share

Shareholders funds outside the long-term business fund are mainly invested in assets that are less sensitive to m

Wi

The with-profits realistic liabilities and the available capital for the With-Profits Fund are sensitive to both market
changes to a number of non-economic assumptions that affect the valuation of the liabilities of the fund. The a
resources (and capital requirements) are most sensitive to the level of the stock market, with the position wor
stock market levels as a result of the guarantees to policyholders increasing in value. An increase in the level of e
implied by the market cost of equity put options also increases the market consistent value of the options given t
and worsens the c

The most critical non-economic assumptions are the level of take-up of options inherent in the contracts (higher ta
more onerous), mortality rates (lower mortality rates are more onerous) and lapses prior to dates at which a g
apply (lower lapse rates are generally more onerous where guarantees are in the money). The sensitivity of the
and capital requirements of the With-Profits Fund is partly mitigated by the actions that can be taken b

Other l

Outside the With-Profits Fund, assets backing actuarial reserves in respect of policyholder liabilities are inve
values of the assets and liabilities are broadly matched. The most critical non-economic assumptions are mortality
of annuity business written (lower mortality rates are more onerous). The Group has reduced its exposure
mortality rates in respect of life assurance contracts through its reinsurance arrangements. In addition, poor cos
gradually depreciate the available capital and lead to an increase in the valuation of the liabilities (throu
allowance fo

Formal intra-group capital

Scottish Widows has a formal arrangement with one of its subsidiary undertakings, Scottish Widows Unit
whereby the subsidiary company can draw down capital from Scottish Widows to finance new business which is
the parent to its subsidiary. Scottish Widows has also provided subordinated loans to its fellow group underta
Widows Annuities Limited and Scottish Wi

Options a

The Group has sold insurance products that contain options and guarantees, both within the With-Profits Fund and

Options and guarantees within the Wi

The most significant options and guarantees provided from within the With-Profits Fund are in respect of guaran
cash benefits on death, maturity, retirement or certain policy anniversaries, and guaranteed annuity options or
certain pension policies. As noted above, under the realistic capital regime of the FSA, the liabilities of the With-P
valued using a market-consistent stochastic simulation model. This model is used in order to place a value on t
guarantees which captures both their intrinsic value and th

The most significant economic assumptions included in

Risk-free yield curve. This is derived from the yield on UK gilts, with an additional 0.1 per cent yield assun
risk-free;
Investment volatility. This is derived from derivatives where possible, or historical observed volatility wher
possible to observe meaningful prices. As at 31 December 2004, the assumptions were set at 18 per cent fo
15 per cent for properties and 13 per cent for interest rates.

The model includes a matrix of the correlations between each of the underlying modelled asset types. The correl
consistent with long-term historical returns. The most significant non-economic assumptions included in
management actions (in respect of investment policy and bonus rates), guaranteed annuity option take up rates an
regarding persistency (both of which are based on recent actual experience), and assumptions regarding morta
based on recent actual experience and in

Options and guarantees outside the With-Profits Fund of S

Abbey Life currently has a number of policies in-force which have a guaranteed annuity option. In total it
reserves of £288 million to cover this liability at 31 December 2004. These reserves have been determined using
interest rate, mortality rate and rate of annuity option take-up assumptions and exceed the value that would be
using a market-consistent stochastic model. It is estimated that a 0.5 per cent reduction in future interest rates wou
liability by son

Under some of Abbey Life s older contracts, the maturity value or the surrender value at the end of the s
guaranteed to be not less than total premiums paid or sums assured. The total provision for these options was
31 December 2004 and was established using stochastic techniques after making pruden

In both Abbey Life and Scottish Widows, certain personal pension policyholders, for whom reinstatement to the
pension scheme was not an option, have been given a guarantee that their pension and other benefits will corresp
the benefits of the relevant occupational pension scheme. The key assumptions affecting the ultimate value of th
future salary growth, gilt yields at retirement, annuitant mortality at retirement, marital status at retirement and fut
returns. There is currently a provision, calculated on a deterministic basis, of £89 million in respect of those guara
salary growth were 0.5 per cent per annum greater than assumed, the liability would increase by some £6 million
0.5 per cent lower than assumed, the liability would increase by son

Corporate

Lloyds TSB Group has long recognised the importance of corporate responsibility (sometimes described as c
responsibility). It is one of the UK s largest corporate givers; it has award winning policies in equality and div
relations and training and development; and it has leading edge systems for the assessment of environmental r
This track record is reflected in sector leading performance in a variety of corporate responsibility indices, lea
i

The Group recognises that social, ethical and environmental (SEE) issues bring both risks and opportunities. T
response to such issues is detailed in its separate corporate respon

The Group has a corporate responsibility steering committee chaired by the deputy group chief executive and
senior executives of those businesses most directly affected by SEE issues. The committee meets quarterly
strategy and direction. The board reviews overall corporate responsibility performance annually and individual iss
to board discussion throughout the year. During 2003, the Group introduced a human rights policy and in 2004 h
self-assessment audit that confirms compliance with the policy in all countri

The board believes that the systems in place to manage significant SEE risks are effective and provide adequate
identify and assess the short and long-term risks arising from SEE matters. One of the most significant risks i
climate change, which affects the whole business of insurance claims, regulation, investment returns and operat
and flood damage claims in the UK have doubled to £6 billion since 1998. Lloyds TSB Insurance recognises
working with the Association of British Insurers and the government to prevent further building on flood plain
offers advice to homeowners on how to protect their properties against extreme weather conditions. These
ensured that Lloyds TSB Insurance is currently able to continue offering cover to renewing customers in areas co
to flooding, while managing its exposure through pricing and underw

The board is satisfied that relevant corporate responsibility risks have been assessed during 2004 and that the
material threat to

During 2004 the Group further embedded its balanced scorecard as a tool to support the business strategy an
provide a means to balance the needs of customers, staff and shareholders. The balanced scorecard seeks to e
performance is measured on customer service, building customer relationships, people management and assess
well as sales and financial measures. Where appropriate, management remuneration and incentives are linked dire
areas of corporate responsibility performance: for example s

Robust internal audit systems are in place to review adherence to policies and procedures and environmental
subject to external independent verification. Overall, the board is satisfied that the Company complies wi
responsibility related policies a

Investment portfolio, maturities, deposits, short-ter

Investment securities and o

The following table sets out the book value and valuation of Lloyds TSB Group s investment securities and o
31 December for each of the three y

	2004 Book value £m	**2004 Valuation £m**	2003 Book value £m	2003 Valuation £m	2002 Book value £m
Investment securities1					
Bank and building society certificates of deposit	**1,901**	**1,902**	2,515	2,515	3,147
Corporate debt securities	**2,581**	**2,587**	1,895	1,890	1,495
Mortgage backed securities	**2,774**	**2,781**	2,211	2,212	893
Other asset backed securities	**3,761**	**3,756**	3,942	3,951	2,817
Other debt securities	**1,140**	**1,141**	1,283	1,284	1,369
Securities of the US treasury and US government agencies	**1,665**	**1,666**	1,624	1,626	1,740
Other government securities	**546**	**547**	271	276	400
Other public sector securities					1
Equity shares	**39**	**63**	35	131	38
	14,407	**14,443**	13,776	13,885	11,900
Other securities					
Securities of the US treasury and US government agencies	**32**	**32**	38	38	40
Other government securities	**4,492**	**4,492**	7,215	7,215	5,995
Other public sector securities	**51**	**51**	106	106	112
Bank and building society certificates of deposit					340
Corporate debt securities	**5,733**	**5,733**	6,785	6,785	7,842
Mortgage backed securities	**504**	**504**	664	664	1,838
Other asset backed securities	**14**	**14**	120	120	1,191
Other debt securities					94
Equity shares	**176**	**176**	423	423	168
	11,002	**11,002**	15,351	15,351	17,620

1 Investment securities are those intended for use on a continuing basis in the activities of Lloyds TSB Group and not for dealir
Investment securities held by Lloyds TSB Group s insurance businesses are not included.

Maturities and weighted average yields of

The weighted average yield for each range of maturities is calculated by dividing the annualised interest incon
31 December 2004 by the book value of securities h

	Maturing within one year		Maturing after one but within five years		Maturing after five but within ten years		Mat year
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amo £m
Investment securities							
Bank and building society certificates of deposit	**1,851**	**4.5**	**50**	**3.6**			
Corporate debt securities	**358**	**5.9**	**1,799**	**3.8**	**393**	**2.7**	**31**
Mortgage backed securities	**7**	**2.4**	**1,670**	**3.8**	**1,060**	**4.2**	**37**
Other asset backed securities	**82**	**2.8**	**2,813**	**3.1**	**727**	**3.9**	**139**
Other debt securities	**262**	**2.1**	**385**	**4.9**	**486**	**3.5**	**7**
Securities of the US treasury and US government agencies	**44**	**1.6**	**482**	**1.7**	**1,076**	**1.7**	**63**
Other government securities	**523**	**1.2**	**21**	**2.5**	**2**	**12.4**	
Total book value	**3,127**		**7,220**		**3,744**		**277**
Other securities							
Securities of the US treasury and US government agencies					**32**	**4.2**	
Other government securities	**42**	**0.6**	**903**	**2.6**	**3,547**	**3.3**	
Other public sector securities	**5**	**4.9**	**46**	**3.1**			
Corporate debt securities	**916**	**2.5**	**4,422**	**3.1**	**395**	**3.5**	
Mortgage backed securities			**238**	**2.9**	**236**	**3.6**	**30**
Other asset backed securities					**14**	**4.7**	
Total book value	**963**		**5,609**		**4,224**		**30**

Maturity analysis and interest rate sensitivity of loans and advances to customers and banks as at 31 D

The following table analyses the maturity profile and interest rate sensitivity of loans by type on a contractual repa
at 31 D

All amounts are before deduction of provisions and interest in suspense. Demand loans are included in the matu
o

	Maturing in one year or less £m	Maturing after one but within five years £m	Maturing after five years £m
Domestic			
Loans and advances to banks	**19,066**	**1,387**	**316**
Loans and advances to customers:			
Mortgages	**2,200**	**10,747**	**67,118**
Other personal lending	**13,782**	**8,868**	**183**
Financial, business and other services	**7,531**	**2,867**	**1,705**
Lease financing	**529**	**1,516**	**4,342**
Hire purchase	**1,677**	**3,006**	**145**

Other	**11,162**	**7,029**	**6,903**
Total domestic loans	**55,947**	**35,420**	**80,712**
Total foreign loans	**4,162**	**1,303**	**1,945**
Total loans	**60,109**	**36,723**	**82,657**
Of which:			
Fixed interest rate	**39,345**	**18,797**	**32,475**
Variable interest rate	**20,764**	**17,926**	**50,182**

The following table shows the details of Lloyds TSB Group s average customer deposits in each of the

	2004 Average balance £m	2004 Average rate %	2003 Average balance £m	2003 Average rate %	2002 Average balance £m
Deposits in domestic offices					
Non-interest bearing demand deposits	**3,134**		2,745		5,985
Interest-bearing demand deposits	**29,726**	**0.47**	26,036	0.35	19,150
Savings deposits	**49,516**	**3.63**	47,041	2.82	43,585
Time deposits	**26,684**	**4.15**	24,787	3.47	20,794
Total domestic office deposits	**109,060**	**2.79**	100,609	2.27	89,514
Deposits in foreign offices					
Non-interest bearing demand deposits	**372**		845		789
Interest-bearing demand deposits	**673**	**0.89**	1,608	2.99	1,410
Savings deposits	**285**	**1.05**	2,183	4.35	2,049
Time deposits	**1,345**	**2.30**	4,846	6.34	7,806
Total foreign office deposits	**2,675**	**1.50**	9,482	4.75	12,054
Total average deposits	**111,735**	**2.76**	110,091	2.48	101,568

Certificates of deposit and other

The following table gives details of Lloyds TSB Group s certificates of deposit issued and other time deposits as
2004 individually in excess of US $100,000 (or equivalent in another currency) by time remaini

	3 months or less £m	Over 3 months but within 6 months £m	Over 6 months but within 12 months £m	Over mont £m
Domestic				
Certificates of deposit	**10,585**	**1,299**	**729**	**10**
Time deposits	**37,687**	**2,783**	**916**	**3,332**
	48,272	**4,082**	**1,645**	**3,342**
Foreign				
Certificates of deposit and other time deposits	**8,088**	**375**	**322**	**299**
Total	**56,360**	**4,457**	**1,967**	**3,641**

Short-ter

Short-term borrowings are included within the balance sheet captions Deposits by banks , Customer accounts
in issue and are not identified separately on the balance sheet. The short-term borrowings of Lloyds TSB
overdrafts from banks, securities sold under agreements to repurchase, certificates of deposit issued, comme
promissory notes issued and other marketable paper. Securities sold under agreements to repurchase and certific
issued are the only significant short-term borrowings of Lloy

The following table gives details of these significant short-term borrowings of Lloyds TSB Group for each o

	2004	2003
	£m	£m
Liabilities in respect of securities sold under repurchase agreements		
Balance at the year end	**10,571**	4,640
Average balance for the year	**7,112**	4,848
Maximum balance during the year	**13,096**	7,395
Average interest rate during the year	**4.5%**	4.5%
Interest rate at the year end	**4.6%**	4.0%
Certificates of deposit issued		
Balance at the year end	**15,226**	16,415
Average balance for the year	**17,470**	20,663
Maximum balance during the year	**19,287**	22,500
Average interest rate during the year	**3.6%**	3.1%
Interest rate at the year end	**4.1%**	3.2%

MANAGEMENT AND I

Directors and senior

The Group is led by a board comprising executive and non-executive directors with wide experience. The directors is considered by the board and, following the provisions in the articles of association, they must stand the shareholders at the first annual general meeting following their appointment and must retire, and may stand fo the shareholders, at least every three years. Executive directors normally retire at age 60, as required by their servi Independent non-executive directors are appointed for three-year renewable terms, which may be terminated w payment of

The board meets at least nine times a year. It has a programme designed to enable the directors regularly to re strategy and the operations and results of the businesses and discharge their duties within a framework of pruden controls relating to the assessing and ma

The roles of the chairman, the group chief executive and the board and its governance arrangements, including matters specifically reserved to the board for decision, are reviewed annually. The matters reserved to the boa include the approval of the annual report and accounts and any other financial statements; the payment of long-term objectives of the Group; the strategies necessary to achieve these objectives; the Group s budgets and p capital expenditure items; significant investments and disposals; the basis of allocation of capital within organisation structure of the Group; the arrangements for ensuring that the Group manages risks effectively; change in accounting policies or practices; the appointment of the Company s main professional advisers; and th senior executives within the organisation and the related for

The board has delegated to management the power to make decisions on operational matters, including those re liquidity and market risk, within an agre

All directors have access to the services of the company secretary, and independent professional advice is directors at the Group s expense, where they judge it necessary to discharge their du

The board evaluates its performance and that of its committees and individual directors. The process adopted, usi produced questionnaire, affords directors the opportunity, through their membership of boards of other companies overseas, to draw on their experience to endeavour to ensure that the Group follows best practice. It also enab suggest how the board s procedures may be improved; to assess strengths and weaknesses; and to address its knowledge and experience. The committees, themselves, assess their respective roles, performance and terms o report according

The chairman s performance is evaluated by the non-executive directors, led by the senior independent director, t the views of exec

The remuneration committee reviews the performance of the chairman, the deputy chairman, the group chief ex other group executive directors, when considering their remuneration arrangements. The nomination commit performance of all the directors. Like all board committees, the nomination committee and remuneration committ board on their deliberations, including the results of these performan

The chairman has a private discussion at least once a year with every director on a wide range of issues affec including any matters which the directors, individually

There is an induction programme for all new directors, which is tailored to their specific requirements and in individual businesses and meetings with senior management. Additional training and updates on particular issues

In order to develop an understanding of the views of major shareholders, the board receives regular reports finance director and the director of inv

The chairman, the group chief executive and the group finance director also have meetings with represent shareholders and the senior independent director and the chairman of the audit committee attend some of the addition, all directors are invited to attend investment analysts and stockbrokers briefings on th

All shareholders are encouraged to attend and participate in the Group s annual

Boa

Biographical details of the board of directors ar

Maarten A van

Joined the Group in 2000 as deputy chairman and was appointed chairman in 2001. Joined the Royal Dutch/ companies in 1968 and after a number of senior and general management appointments in that group, became g director in 1992. Appointed president of Royal Dutch Petroleum Company and vice chairman of the committe directors of the Royal Dutch/Shell Group in 1998 and continued in these roles until 2000. A non-executive di Dutch Petroleum Company, BT Group and British Airways, and a member of the supervisory board of Akzo N

Wolfgang

Joined the board in 2003. Joined Procter and Gamble in 1967 and held a number of senior and general managemen
in Europe, South America and North America, before retiring in 2001. A non-executive director of Cadbury Schw
AG. Board member of the Institute for the Fu

Ewan Brown C

Chairman of Lloyd

A director since 1999. A non-executive director of Lloyds TSB Scotland since 1997. Joined Noble Grossart in 1
executive director of that company until December 2003. Chairman of Transport Initiatives Edinburgh. A non-exe
of John Wood Group, Noble Grossart and Stagecoach Hold

Gavin J N Ge

Chairman of S

Joined the board in 2002. A non-executive director of Scottish Widows, having been appointed to the board o
before it became a member of the Lloyds TSB Group. Retired as senior partner of Baillie Gifford in 2001, afte
that firm. A non-executive director of Archangel Informal Investment. Chairman of the Court of Heriot-W

Sir Julian H

Joined the board on 1 January 2005. Joined Vodafone in 1984 and held a number of senior and gener
appointments before being appointed to the board of that company in 1996 and deputy chief executive o
Previously held positions in Rediffusion from 1972 to 1982 and Mars GB from 1982 to 1984. A non-executive dire
G

DeAnne S J

Joined the board in 2001. Held a number of senior appointments in the UK and USA with the World Bank, Roy
Group and British Airways, before membership of the Bank of England Monetary Policy Committee from 1997 to
HM Treasury s banking services consumer codes review group in 2000/1. Chairman of the Royal Institute
Affairs. A non-executive director of BP, Serco Group and Roche Holding

Angel

Joined the board in 2003. Deputy chairman of Scottish Widows, having been appointed to the board of that co
became a member of the Lloyds TSB Group. A member of parliament from 1992 to 1997 and Economic S
Treasury from 1995 to 1997. Chief Executive of the Association of Private Client Investment Managers and S
non-executive director of Logica CMG and the Port of London Auth

Group C

Joined the board in 2001 as group executive director, UK Retail Banking before his appointment as group chief ex
2003. Served with Citibank from 1975 and held a number of senior and general management appointments in t
America and Europe before becoming chief operating officer of Citibank Consumer Bank in 1998
Citibank/Travelers merger in 1998, he was chairman and chief executive officer of Travelers Life and Annu
Chairman and chief executive officer of Zona Financiera from 2000 to 2

Mi

Deputy Group C

Joined TSB Group in 1991 and held a number of senior and general management appointments before being a
board in 1997 and deputy group chief executive in 1998. Joined Barclays Bank in 1967 and held a number of sen
management appointments, including managing director of Barclays Direct Lending Services from 1990 to 199
The British Quality Founda

Group Executive Director, UK

Joined the board in June 2005. Served with Wells Fargo in the USA from 1973 to 2001 where she held a numbe
general management appointments before becoming president and chief executive officer of Wells Fargo B
non-executive director of the LookSmart Corporation and Onyx Soft

A

Group Executive Director, Insurance a

Joined TSB Commercial Holdings in 1986 and held a number of senior and general management appointments
Group before being appointed to the board in 2000, as group executive director, IT and Operations. Appointed g
director, Insurance and Investments in October 2003. After some 10 years in the accountancy profession,
Telephone & Electronics Corporation in 1980, serving as finance director in the UK from 1983 to

Group Executive Director, Wholesale and Interna

Joined the Group in 2003 as managing director, Corporate Banking before being appointed to the board in 200
Citigroup from 1972 to 1999, where he held a number of senior and general management appointments in t
America, Asia and Europe. He was president and chief executive officer of eCharge Corporation from 19
co-founder and vice chairman of the board of Chase Cost Management Inc from 1996 to 2

Group Fi

Joined the board in 2004. Group finance director of Kingfisher from 2000 to 2004. Previously finance directo
1997, having joined that company in 1995, and held a senior position at McKinsey & Co from 1990 to 1995. Beg
Unilever in 1983. A member of the Accounting Standards Board and a non-executive director of The City of Lond
T

*	Member of the audit committee
**	Chairman of the audit committee
¿	Member of the nomination committee
¿¿	Chairman of the nomination committee
	Member of the remuneration committee
	Chairman of the remuneration committee
+	Member of the risk oversight committee
++	Chairman of the risk oversight committee
l	Independent director
p	Senior independent director

(

Directors remun

Lloyds TSB Group s remuneration policy is to ensure that individual rewards are aligned with Lloyds TSB Gro
and the interests of its shareholders, and that packages are provided which attract and retain executive direc
management of the highest calibre and motivate them to perform to the highest standards. The main

- Basic salary reflects the market median of companies in the FTSE 30 and total compensation should be at the m quartile providing performance is at that level.
- The majority of total compensation is linked to the achievement of stretching performance targets.
- The long-term rewards are aligned to shareholders interests and executive directors are expected to build a sha Group over a period of four years equivalent to the value of one times the director s annual basic salary.
- The overall package reflects market practice and takes account of the terms and conditions applying to other em Group.

There is no intention to change these prin

Executive directors remuneration is made up of basic salary, annual bonus, long-term incentives, pensions and o
2005, approximately 75 per cent (82 per cent for the group chief executive) of an executive director
remuneration (salary, annual bonus and long-term incentives) will be performance related (see illustrative cha
value of long-term incentives is the expected value calculated by using a binomial model, which is
methodology fo

Annua

Long-terr

Group chi

Other executi

The chairman and deputy chairman receive remuneration which comprises basic salary and benefits which are bro
the executive directors, but they do not participate in the annual bonus and long-term incentive arrangemer
chairman has pension benefits which accrued during his service as an executive director and pension benefits are a
chairman as describ

The fees of the independent non-executive directors are agreed by the board within a total amount det
shareholders. They may also receive fees, agreed by the board, for membership of board committees. The fees
recognise the responsibilities of the role and to attract individuals with relevant skills, knowledge and experienc
neither performance related nor pensionable and are comparable with those paid by other companies. The annua

	Annual fees from 1 April 2005	Annual fees pre-April 2005
Board	£50,000	£45,000
Audit committee chairmanship	£40,000	£15,000
Audit committee membership	£15,000	£10,000
Nomination committee membership	£5,000	
Remuneration committee chairmanship	£20,000	£12,500
Remuneration committee membership	£15,000	£10,000
Risk oversight committee membership	£15,000	

Independent non-executive directors who serve on boards of subsidiary companies may also receive fees from th

Basic salaries are reviewed annually, usually in December, taking into account individual performance and mark
(which is provided by Towers, Perrin, Forster & Crosby Inc) and then adjusted from 1 January of the follow
salary increases for other employees across the Group will be in the range of 0-10 per cent, and the salary increa
executive directors are consistent with this policy. Details of salaries payable to executive directors in 2005 are

Annual incentive and performa

The annual incentive scheme for executive directors is designed to reflect specific goals linked to the perf

For executive directors, except Mr Daniels, individual bonus awards for 2005 will be made from a bonus pool b
performance with pre-determined targets relating to profit before tax and economic profit. As in 2004, the maxim
bonus pool applicable to these executive directors will remain at 100 per cent of the aggregate of their basic salar
equal to 75 per cent of these executive directors basic salaries will form the bonus pool on the achievement of a s
for 2005; failure to achieve at least 90 per cent of this budget will result in no bonus pool. These executive d
considered for awards based on individual targets which will include profitability, franchise growth, risk, se
specific goals that are relevant to improving overall business performance. The maximum level of any bonus awa
from the pool to any individual has been set at 150 per cent (100 per cent for 2004) of salary for exceptional p
reflect the competitive market position for total earnin

The maximum annual bonus opportunity for 2005 for Mr Daniels has also been set at 150 per cent (125 per ce
basic salary for exceptional performance, to increase the proportion of pay which is performance linked an
competitive market position for total earnings opportunity. An amount equal to 112.5 per cent of basic salary will
the achievement of stretching budget targets relating to profit before tax and economic profit; failure to achieve
cent of these performance targets would result in no bonus payment. The actual level of bonus award made will
individual performance an

PricewaterhouseCoopers LLP check the calculation of the annual incentive payments for executive directo
achievement of performance against targets set. In respect of performance in 2004, bonuses ranging from 40 per
cent have been paid to the directors with an average payment of 89 per

Under the performance share plan agreed at the annual general meeting in May 2004, executive directors are re
50 per cent of any bonus payable into shares in the Company, known as bonus shares. The bonus shares will be he
the executive for a period of three years before release. The amounts deferred into bonus shares in respect of t
before the deduction of incon

Name	J E Daniels	M E Fairey	A G Kane	G T Tate	H A We
Amount	£468,750	£259,000	£180,000	£93,750	£135,00

Under the new plan, executives will be eligible for an award of free shares, to be known as performance share bonus shares. The maximum match will be two performance shares for each bonus share, awarded at the end o retention period. The number of performance shares actually awarded will depend on the Company s total sh (TSR , calculated by reference to both dividends and growth in share price) performance measured over the ending 31 December 2007, compared with the TSR of the other companies in the comparator group listed below. of two performance shares for each bonus share will be awarded only if the Company s TSR performance pla comparator group; one performance share will be awarded for each bonus share if the Company is placed performance share for every two bonus shares if the Company is placed eighth (median). Between first and fift fifth and eighth positions a sliding scale will apply. If the TSR performance is below median no performance awarded. There w

In December 2004, the Inland Revenue issued new guidance which will require income tax to be deducted bef into bonus shares. This is a change that effectively would alter the balance under the long-term arrangements, would reduce any performance related match. Therefore, to avoid this inbalance, where a match with perforn justified it will be made on a notional deferral as if income tax had not been deducted at the outset. This maintai of the original des

The other companies in the comparator

Alliance & Leicester	Aviva	Banco Santander	Barclays
Bradford & Bingley	Friends Provident	HBOS	HSBC Holdings
Legal & General	Northern Rock	Prudential	Royal Bank of Scotla
Royal & Sun Alliance	Standard Chartered		

The remuneration committee believes that the out-performance of Lloyds TSB Group s TSR compared with that o in the comparator group will demonstrate the success of the G

Long

Executive share

In 2004, options were granted to executive directors and senior executives within the scheme limits. These lim number of shares under option and the price payable on exercise. The maximum limit for the grant of options director in any one year was one and a half times annual basic salary multiplied by a performance multiplier of 3 exceptional circumstances, for example on the recruitment of a new executive, that could be increased to four tim salary multiplied by 3.5). The table on pages 87 and 88 gives the number of o

A performance condition was set when the grant of options was made and the options will not normally be exercis condition is met. The performance condition requires the Company s ranking, based on TSR over the relevant (th to be at least ninth within the con

The full grant of options for executive directors will only become exercisable if the Company is ranked con

The other constituents of the compar

Abbey National	ABN Amro	Alliance & Leicester	Aviva
Barclays	Citigroup	Fortis	HBOS
HSBC Holdings	ING	Legal & General	National Australia Ba
Prudential	Royal Bank of Scotland	Royal & Sun Alliance	Standard Chartered

In 2005, options will be granted to executive directors and senior executives within the scheme limits. These lim number of shares under option and the price payable on exercise. The maximum limit for the grant of options director in any one year is equal to three times annual basic salary, although in exceptional circumstances, for recruitment of a new executive director, that could be increased to four times annu

A performance condition is set when the grant of options is made and the options cannot normally be exerc conditio

The performance condition for options granted from 2005 will be based on TSR over the relevant (three year) p against the group of 14 financial services companies listed above for the performance share plan. The optio exercisable in full if the Company is placed fourth or above in the comparator group (at or above the upper qu 30 per cent if the Company is placed eighth (i.e. median). The options will lapse if the Company is placed b sliding scale will apply between fourth and eighth positions. There w

The following table illustrates the percentage of the grant which would be exercisable depending on the Company within the comparator group

Ranking position within comparator group	Per cent of option which may be exercised
1	100
2	100
3	100
4	100
5	82.5
6	65
7	47.5
8	30
9 or below	Nil options not exercisable

The remuneration committee believes that the out-performance of Lloyds TSB Group s TSR compared t
companies in the comparator group will demonstrate the success of the Group s strategy. The Company uses o
Alithos Limited to assess the Company s performance against the comparator group for the purposes of the execu
scheme and the performance share plan, and PricewaterhouseCoopers LLP check the results of the testing of th

Oth

The executive directors, the chairman and the deputy chairman are also eligible to participate in the Lloyds TSB G scheme and the Lloyds TSB Group shareplan . These are all-employee share schemes and, therefore, perfor

The following charts illustrate the available dilution capacity for the Company

Executive directors are entitled to participate either in the Group s defined benefit pension schemes (based on sal service, with a maximum pension of two thirds of final salary), or the Group s defined contribution scheme (u final entitlement will depend on their contributions and the final value of their fund). The defined benefit schem new entrants

Serv

Lloyds TSB Group s policy is for executive directors to have service agreements with notice periods of no mo All current executive directors are entitled to receive 12 months notice from the Company, but would be req months notice if they wished to leave. As the chairman is regarded as an employee, he is entitled to receive u

	Notice to be given by the Company	Salary from 1 January 2005	Date of service agre
J E Daniels	12 months	£825,000	19 October 2001

M E Fairey	12 months	£545,000	28 August 1991
A G Kane	12 months	£475,000	9 February 2000
G T Tate	12 months	£475,000	29 July 2004
H A Weir	12 months	£475,000	4 March 2004
M A van den Bergh	8 weeks	£475,000	28 July 2000

It is now the Group s policy (subject to existing contractual arrangements) that where compensation on early term should be restricted to basic salary and bonus to the extent earned. Payments will be on a phased basis and mitigat that alternative employment is secured. Bonus payments should relate to the period of actual service, rather than period, and will be determined on the basis o

Independent non-executive directors do not have service agreements and, in accordance with the articles of as appointment may be terminated at any time without

Externa

Lloyds TSB Group recognises that executive directors may be invited to become non-executive directors of other p companies and that these appointments may broaden their knowledge and experience, to the benefit of the Lloy Fees are normally retained by the individual directors as the post entails personal responsibility. Executive director allowed to accept one non-executiv

During 2004, one of the current executive directors received a fee of £11,300, which was retained, for serving as a director of and

Perf

The graph illustrates the performance of Lloyds TSB Group plc measured by TSR against a broad equity mark
past five years. As Lloyds TSB Group plc has been a constituent of the FTSE 100 index throughout this five-y
index is considered to be the most appropri

Comparative TSR

31 Dec
1999

31 Dec
2000

31 Dec
2001

31 Dec
2002

31 Dec
2003

31 Dec
2004

120

100

80

60

40

20

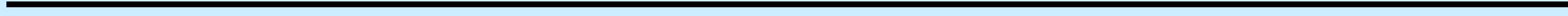
0

Lloyds TSB Group plc

FTSE 100 Index

Rebased to 100 on 31 December 1999

Source : Datastream



Directors emolu

	Salaries/ fees £000	Other benefits Cash £000	Non cash £000	Performance -related payments £000	Compensation for loss of office £000	20 To £0
Current directors who served during 2004						
Executive directors						
J E Daniels	**750**	**181**	**12**	**960**		**1,9**
M E Fairey	**518**	**413**	**13**	**534**		**1,4**
A G Kane	**450**	**16**	**19**	**373**		**85**
G T Tate	**187**	**20**	**3**	**193**		**40**
H A Weir	**309**	**50**	**16**	**279**		**65**
Non-executive directors						
M A van den Bergh	**442**	**12**				**45**
W C G Berndt	**55**					**55**
Ewan Brown	**84**					**84**
G J N Gemmell	**110**					**11**
D S Julius	**55**					**55**
A A Knight	**93**					**93**
Former directors who served during 2004						
P G Ayliffe	**400**	**27**	**1**	**160**		**58**
C S Gibson-Smith	**55**					**55**
P R Hampton	**15**	**2**			**342**	**35**
Sir Tom McKillop	**57**					**57**
D P Pritchard	**243**	**9**	**20**	**7**		**27**
Lord Selborne	**22**					**22**
S C Targett	**160**	**121**	**2**			**28**
Former directors who served during 2003						
M D Ross				**332**	**356**	**68**
Others						
	4,005	**851**	**86**	**2,838**	**698**	**8,**

The cash column under other benefits includes flexible benefits payments (4 per cent of basic salary), the hous tax planning allowance for Mr Daniels, pension contributions for those in the defined contribution scheme Mr Tate) and an additional payment in respect of the contribution to the separate fund relating to Mr Fairey separate fund, which was mentioned in previous annual reports, was established to cover pension obligations of th the Group after 1 June 1989 and who are subject to the Inland Revenue cap relating to pensions, introduced by t 1989. The amount shown for Mr Targett relates primarily to his relocation expenses. The non cash column in relating to the use of a company car, private medical insurance and life insurance cover. It also includes t matching shares which are received under the terms of shareplan, through which employees have the opportun shares up to a maximum of £125 per month and receive matching shares on a one for one basis up to a max £30 per month, rounded down to the neare

Performance-related payments relate to cash bonuses based on Group performance and the attainment of pre-det relating to profit before tax and economic profit. For 2004, bonuses ranging from 40 per cent to 125 per cent are directors with an average payment of 89 per cent of salary. These payments also include the value of any awa shareplan, the first £3,000 of which is made in the form of shares in Lloyds T

Mr Ayliffe s employment was terminated from 31 March 2005 and the payments to which he was entitle accordance with his contractual entitlement. Full details will be reported in the 2005

Mr Hampton s employment was terminated on 12 January 2004. He has received payments in accordance wit

The amount shown for Mr Ross reflects payments he received in accordance with his contractu

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Direc

The executive directors are members of one of the pension schemes provided by the Lloyds TSB Group with bene
defined benefit or defined contribution basis. Those directors who joined the Lloyds TSB Group after 1 Jun
members of a defined benefit scheme, have pensions provided on salary in excess of the earnings cap either throug
of a funded unapproved retirement benefits scheme (FURBS) or by an unfunded

Retirement pensions accrue at rates of between 1/60 and 1/30

Directors have a normal retirement age of 60. In the event of death in service, a lump sum of four times salary i
for members of a defined benefit scheme, a spouse s pension of two-thirds of the member s prospective pe
retirement, a spouse s pension of two-thirds of the member s pension is payable. The defined b
non-contributory. Members of defined contribution schemes are require

Defined contribution sc

Mr Targett was a member of a defined contribution scheme. During the period 1 January 2004 to 30 April 200
made contributions totalling £24,000. As he left before completing two years service no benefits will be vested un
contribution scheme in

Mr Tate is a member of a defined contribution scheme. He joined the Lloyds TSB Group on 4 August 2003. Du
31 December 2004, the employer has made contributions to the defined contribution scheme in respect of him to
of which £24,843 related to the period since his appointme

Mrs Weir is a member of a defined contribution scheme. She joined the Lloyds TSB Group on 26 April 2004. Du
31 December 2004, the employer has made contributions to the defined contribution scheme in respect of her tot

Defined benefit scheme members	**Accrued pension at 31 December 2004 £000 (a)**	Accrued pension at 31 December 2003 £000 (b)	Change in accrued pension £000 (a)-(b)	**Transfer value at 31 December 2004 £000 (c)**	Transfer value at 31 December 2003 £000 (d)	Change in transfer value £000 (c)-(d)	**Additional pension earned to 31 Decemb 2004 £000 (e)**
P G Ayliffe	**132**	98	34	**1,780**	1,245	535	**30**
J E Daniels	**77**	51	26	**1,139**	711	428	**24**
M E Fairey	**226**	186	40	**3,996**	3,052	944	**34**
P R Hampton	**28**	17	11	**365**	208	157	**10**
A G Kane	**216**	170	46	**3,029**	2,233	796	**41**
In addition, the following unfunded benefits have accrued for Mr van den Bergh instead of a salary increase in 200							
M A van den Bergh	**10**	7	3	**136**	85	51	**3**

Mr Hampton s pension entitlement at 31 December 2004 includes an additional 12 months service in respect of
in accordance with the terms

The disclosures in columns (a) to (d) are as required by the UK Companies Act 198

Columns (a) and (b) represent the deferred pension to which the directors would have been entitled had they le
31 December 2004 and 2003, respectively (ignoring the two-year requirement to qualify for a def

Column (c) is the transfer value of the deferred pension in column (a) calculated as at 31 December 2004 b
supplied by the actuary of the relevant Lloyds TSB Group pension scheme in accordance with actuarial guida
The underlying bases used to arrive at the factors have not changed

Column (d) is the equivalent transfer value, but calculated as at 31 December 2003 on the assumption that t
serv

Column (e) is the increase in pension built up during the year, recognising (i) the accrual rate for the additional se
the pensionable salary in force at the year end, and (ii) where appropriate the effect of pay changes in real (
terms on the pension already earned at the st

Column (f) is the capital value of the pension

The disclosures in columns (e) and (f) are as required by the UK Listing Authority listing rules. The requiremen
rules differ from those of the Companies Act. The listing rules require the additional pension earned ove
calculated as the difference between the pension accrued at the end of the financial year and the pension accrue
the financial year less the increase in the pension earned over the year solely due to inflation. The transfer valu
can differ significantly from the change in transfer value as required by the Companies Act because the add
accrued over the year calculated in accordance with the listing rules makes allowance for inflation and the change
value required by the Companies Act will be significantly influenced by changes in the assumptions underlying the
calculation at the beginning and end of the

Members of the Lloyds TSB Group s pension schemes have the option to pay additional voluntary contribut
contributions nor the resulting benefits are included in t

As at 31 December 2004, Lloyds TSB Group employed 69,985 people (full-time equivalent), compared
31 December 2003. At 31 December 2004 68,037 employees were located in the UK, 981 in continental Eur
Americas, and 305 in the rest of the world. At the same date, 43,732 people were employed in UK Retail Ba
Insurance and Investments, 18,973 in Wholesale and International Banking, and 1,742 in c

Lloyds TSB Group is committed to employment policies which follow best practice, based on equal oppo
employees irrespective of sex, race, national origin, religion, colour, disability, sexual orientation, age or

In the UK, Lloyds TSB Group supports Opportunity Now and Race for Opportunity; campaigns to improve op
women and ethnic minorities in the work place. Lloyds TSB Group is a member of the Employers Forum
support of employment of people with disabilities. This recognises the need for ensuring fair employm
recruitment and selection, and the retention, training and career development of

Employees are kept closely involved in major changes affecting them through a variety of means. In the UK, Lloy
has long standing arrangements with finance sector unions covering both collective and individual representation c
TSB Group has gone through substantial changes in recent years; adjusting for the effect of acquisitions and dispo
staff numbers have reduced by 16,000 since 1995. However, during this time no material strikes or work
occurred. Additionally staff are kept closely involved in major changes affecting them through such meas
briefings, internal communications and opinion surveys as a way of ensuring the views of employees are taken
reac

Schemes offering share options or the acquisition of shares are available for most staff, to encourage their financi
in Lloyds TSB Group. Further details are given in

Sh

Direc

The interests, all beneficial, of those who were directors at 31 December 2004 in shares in Lloyds TS

Shares	At 1 January 2004 (or later date of appointment)	At 31 Dec 2004
Executive directors		
J E Daniels	37,007	**38,136**
M E Fairey	76,605	**77,858**
A G Kane	97,769	**98,979**
G T Tate	701	**701**
H A Weir		**1,699**
Non-executive directors		
M A van den Bergh	5,079	**5,079**
W C G Berndt	40,000	**46,000**
Ewan Brown	3,787	**4,027**
G J N Gemmell	70,000	**70,000**
D S Julius	2,000	**2,000**
A A Knight	3,540	**4,940**
Former executive director		
P G Ayliffe	91,216	**92,453**
Former non-executive directors		
D P Pritchard	5,178	**10,566**
C S Gibson-Smith	3,151	**3,151**

Sir Julian Horn-Smith joined the board on 1 January 2005 and had a beneficial interest in 5,000 shares in Lloyds T

Non-bene

Directors had non-beneficial inter

Mr Ayliffe, Mr Daniels, Mr Fairey, Mr Kane, Mr Pritchard, Mr Tate, Mr van den Bergh and Mrs Weir, toge
77,000 other employees, were potential beneficiaries in the 1,364 and 1,467,422 shares held at the end of the yea
TSB qualifying employee share ownership trust and the Lloyds TSB Group employee share ownership tru
162,692 and 1,609,602 shares, respectively, were held by these trusts at the beginning of the year. In addi
directors, with the exception of Mr van den Bergh, together with some 77,000 other employees, were potential
shareplan and were, therefore, treated as interested in the 471,989 shares held at the end of the year by th
shareplan. 2,163,267 shares were held by the trustee at the beginn

Interests in

Current directors who served during 2004	At 1 January 2004 (or later date of appointment)	**Granted during the year**	**Exercised/ lapsed during the year**	**At 31 December 2004**	Exercise price	Exercise periods From	To
J E Daniels	907,780			**907,780**	694p	01/11/2004	31/10
	330,419			**330,419**	715p	06/03/2005	05/03
	3,327			**3,327**	284p	01/06/2006	30/11
	599,239			**599,239**	394.25p	21/02/2006	20/02
	305,232			**305,232**	430p	14/08/2006	13/08
		939,177		**939,177**	419.25p	18/03/2007	17/03
M E Fairey	797			**797**	474p	01/11/2005	30/04
	54,000			**54,000**	510p	26/03/2000	25/03
	48,000			**48,000**	859.5p	15/05/2001	14/05
	57,000			**57,000**	817p	02/08/2002	01/08
	85,896			**85,896**	549.5p	06/03/2003	05/03
	10,931			**10,931**	615.5p	08/08/2003	07/08
	42,884			**42,884**	655p	06/03/2004	05/03
	148,618			**148,618**	733p	21/08/2004	20/08
	345,104			**345,104**	715p	06/03/2005	05/03
	1,330			**1,330**	284p	01/06/2006	30/11
	531			**531**	348p	01/11/2006	30/04
	663,157			**663,157**	394.25p	21/02/2006	20/02
		555,992		**555,992**	419.25p	18/03/2007	17/03
A G Kane	25,000			**25,000**	321p	28/03/1999	27/03
	40,000			**40,000**	510p	26/03/2000	25/03
	50,000			**50,000**	880p	04/03/2001	03/03
	27,000			**27,000**	887.5p	04/03/2002	03/03
	64,786			**64,786**	549.5p	06/03/2003	05/03
	11,841			**11,841**	615.5p	08/08/2003	07/08
	34,759			**34,759**	655p	06/03/2004	05/03
	118,178			**118,178**	733p	21/08/2004	20/08
	275,349			**275,349**	715p	06/03/2005	05/03
	5,783			**5,783**	284p	01/06/2008	30/11
	529,105			**529,105**	394.25p	21/02/2006	20/02
		523,255		**523,255**	419.25p	18/03/2007	17/03
G T Tate	348,837			**348,837**	430p	14/08/2006	13/08
	268,336			**268,336**	419.25p	18/03/2007	17/03
		195,409		**195,409**	403p	12/08/2007	11/08
H A Weir		**556,208**		**556,208**	424.75p	29/04/2007	28/04
		5,093		**5,093**	321p	01/11/2009	30/04

Share retention plan					
J E Daniels	216,763	**216,763**	(see page 89)	01/01/2005	30/06

Former directors who served during 2004	At 1 January 2004	**Granted during the year**	**Exercised/ lapsed during the year**	**At 31 December 2004 (or earlier date of leaving the board)**	Exercise price	Exercise periods From	To
P G Ayliffe	3,327			**3,327**	284p	01/06/2006	30/11/20
	13,000			**13,000**	321p	28/03/1999	27/03/20
	12,000			**12,000**	510p	26/03/2000	25/03/20
	20,000			**20,000**	880p	04/03/2001	03/03/20
	3,000			**3,000**	887.5p	04/03/2002	03/03/20
	23,657			**23,657**	549.5p	06/03/2003	05/03/20
	10,560			**10,560**	615.5p	08/08/2003	07/08/20
	16,717			**16,717**	655p	06/03/2004	05/03/20
	44,562			**44,562**	733p	21/08/2004	20/08/20
	104,895			**104,895**	715p	06/03/2005	05/03/20
	218,769			**218,769**	394.25p	21/02/2006	20/02/20
	177,034			**177,034**	430p	14/08/2006	13/08/20
		429,338		**429,338**	419.25p	18/03/2007	17/03/20
P R Hampton	326,351		**326,351§**		740p		
	3,327		**3,327§**		284p		
	642,739		**642,739§**		394.25p		
D P Pritchard	4,687		**4,687**		416p		
	50,000			**50,000**	859.5p	15/05/2001	14/05/20
	40,000			**40,000**	817p	02/08/2002	01/08/20
	71,519			**71,519**	549.5p	06/03/2003	05/03/20
	10,385			**10,385**	615.5p	08/08/2003	07/08/20
	36,374			**36,374**	655p	06/03/2004	05/03/20
	127,131			**127,131**	733p	21/08/2004	20/08/20
	286,363			**286,363**	715p	06/03/2005	05/03/20
S C Targett	759,036		**759,036§**		311.25p		
	2,658		**2,658§**		348p		
		558,139	**558,139§**		419.25p		
Share plan 2003							
S C Targett	331,125		**331,125§**		(see page 89)		

a) Sharesave.
b) Executive option granted prior to March 1996.
c) Executive option granted between March 1996 and August 1999.
d) Executive option granted between March 2000 and March 2001.
e) Executive option granted after March 2001.
f) Exercisable.
g) Not exercisable as the performance conditions had not been met.
h) Not exercisable as the option has not been held for the period required by the relevant scheme.
i) Market price of shares is below the share option exercise price.
j) Market price on day of exercise was 426.5p. In that regard Mr Pritchard made a gain of £492. This is the differe the market price of the shares on the day on which the share option was exercised and the price paid for the sha

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These share options lapsed when Mr Hampton and Mr Targett left the board on 12 January 2004 and 30 April 2
respectively.
The market price for a share in the Company at 1 January 2004 and 31 December 2004 was 448p and 473p, res
range of prices between 1 January 2004 and 31 December 2004 was 391.75p to 476.25p.

None of the other directors at 31 December 2004 had options to acquire shares in Lloyds TSB Group plc or its

The following table contains information on the performance conditions for executive options granted s
remuneration committee chose the relevant performance condition because it was felt to be challenging, aligned
interests and appropri

Options granted	Performance conditions
Prior to March 1996	None
March 1996	Growth in earnings per share which is equal to the aggregate percentage change in th index plus two percentage points for each complete year of the relevant period.
March 1997 August 1999	As for March 1996 plus a further condition that the Company s ranking based on TS relevant period should be in the top fifty companies of the FTSE 100.
March 2000 March 2001	As for March 1997 August 1999 except that there must have been growth in the ea equal to the change in the retail price index plus three percentage points for each con the relevant period.
August 2001 August 2004	That the Company s ranking based on TSR over the relevant period against a compa UK and international financial services companies including Lloyds TSB) must be at when 14 per cent of the option will be exercisable. If the Company is ranked first in 100 per cent of the option will be exercisable and if ranked tenth or below the perfor condition is not met. At the end of 2004 Lloyds TSB Group was ranked: 10th after four years of the performance period for options granted in 2001; 14th after three years of the performance period for options granted in 2002; 15th after two years of the performance period for options granted in 2003; and 6th after one year of the performance period for options granted in 2004

Oth

Share

Mr Daniels is the only participant in this plan and holds an option, granted to him on 2 November 2001, to a
ordinary shares in Lloyds TSB Group plc for a total price of £1. The option was granted as part of the remune
considered necessary to attract him from the USA and was designed to encourage him to remain with Lloyds T
The option was not subject to any performance condition and vested on 31 December 2004, with a six month
finishing on 30 June 2005. Full details of the plan were set out in the 2002 annual report on Form 20-F. Mr Daniel
option on

Lloyds TSB Group plc s

The option granted to Mr Targett to acquire 331,125 ordinary shares when he joined the Group lapsed following

None of those who were directors at the end of the year had any other interest in the capital of Lloyds TSB G

The register of directors interests, which is open to inspection, contains full particulars of directors shareholdi
acquire shares in Lloyds T

Corpora

Statement on US corporate governa

As a non-US company listed on the New York Stock Exchange (NYSE) Lloyds TSB Group plc is required
significant ways in which its corporate governance practices differ from those followed by domestic US compani
NYSE. As Lloyds TSB Group s main listing is on the London Stock Exchange, it follows the principles
combined code on corporate governance annexed to the UK Listing Authority listing rules. Lloyds TSB Grou
with the provisions of the code, and has done so throughout the year regarding the code provisions whose requir
continuing nature. Key differences are

The board, rather than a separate corporate governance committee, sets the corporate governance principles a
Company and conducts an annual evaluation of the performance of the board, its committees and its indivi

The nomination committee comprises the chairman and two independent non-executive directors, rather than be
entirely of independent directors, as suggested by the rule

The board and

A

The audit committee comprises Mr Brown (chairman), Mr Gemmell and Mrs Knight. The committee s terms
available from the company secretary and are displayed on the Company s website www

The board has determined that, although no member of the audit committee satisfies the strict definition of an
financial expert under the regulations issued by the Securities and Exchange Commission of the United S
following the passing of the Sarbanes-Oxley Act of 2002, it is satisfied that at least one

committee has recent and relevant financial experience. The directors are confident in the expertise and exp
member of the committee and of the committee as a whole. The board believes that the collective experience of t
the committee enables them, as a group, to act as an effective audit committee and that the audit committee has f
can continue to function effectively without a member who qualifies as an audit committee fi

The audit committee met five times in 2004, during which it received reports from, and held discussions with, m
the auditors. In discharging its duties, the committee has reviewed the auditors remuneration and, in discussio
assessed their independence and objectivity (more information about which is given in note 4 to the financia
relation to the procedure for approving fees for audit and non-audit work) and recommended their re-appointmen
general meeting. The committee also reviewed the financial statements published in the name of the board and
acceptability of the related accounting policies, practices and financial reporting disclosures; the scope of the work
internal audit department, reports from that department and the adequacy of its resources; the effectiveness of
internal control, risk management and compliance with financial services legislation and regulations (more info
which is given in the note about internal control on page 91); procedures by which staff may raise concerns in c
results of the external audit and its cost effectiveness; reports from the external auditors on audit planning and th
accounting and internal control systems; and the committee s own role and performance. The committee also ha
the auditors, without executives present, and a meeting with the head of intern

Chairma

The chairman s committee, comprising the chairman, the deputy chairman, the group chief executive and the de
executive, generally meets twice a month, to assist the chairman in preparing for b

The committee may have specific powers delegated to it by the board from time to time and following the exe
powers, it repor

Group execu

The group executive committee, comprising the group chief executive, the deputy group chief executive, the g
directors, the chief risk director, the group human resources director and the director of group IT and operations,
the group chief executive in performing his duties. Specifically, the committee considers the development and imp
strategy, operational plans, policies and budgets; the monitoring of operating and financial performance; the a
control of risk; the prioritisation and allocation of resources; and the monitoring of competitive forces in each are
The committee, assisted by its sub-committees, the group business risk and group asset and liability committees
the group chief executive in endeavouring to ensure the development, implementation and effectiveness of t
management framework and the clear articulation of the Group s risk policies, and in reviewing the Group
exposures and concent

The committee may have specific powers delegated to it by the board from time to time and following the exe
powers, it reports to the board. To comply with the Group s articles of association, only committee memb
directors of the Company participate in the exercising of any powers delegate

Nomina

The nomination committee, comprising Mr van den Bergh (chairman), Mr Brown and Dr Julius, reviews the com
board, taking into account the skills, knowledge and experience of directors and considers and makes recomme
board on potential candidates for appointment as directors. The committee also makes recommendations to the bo
the re-appointment of any independent non-executive director by the board at the conclusion of his or her spe
re-election of any director by the shareholders under the retirement provisions of the articles of association; any
to the continuation in office of a director; and the appointment of any director to executive or other office
positions of chairman and group chief executive, the recommendation for which would be considered at a
non-executive directors regarding the position of group chief executive, and all the directors regarding the positio

During the year, the committee met three times and recommended the appointment of two executive di
non-executive director. In that regard, detailed role specifications were drawn up, external search consultants we
candidates were interviewed by committee members and

The committee s terms of reference are available from the company secretary and are displayed on the Co
www

Remunera

The remuneration committee, which comprises Dr Berndt (chairman), Sir Julian Horn-Smith and Dr Juli
remuneration policy for the top management group, to ensure that members of the executive management are
appropriate incentives to encourage them to enhance the performance of the Group and that they are rewarded for t
contribution to the success of the organisation. It is made aware of, and advises on, major changes to employee b
and it also agrees the policy for authorising claims for expenses from the group chief executive and the c
delegated powers for setting remuneration for the chairman, the deputy chairman, the group executive director
secretary and any Group employee whose salary exceeds a spe

All the independent non-executive directors are invited to attend meetings if they wish, and they receive the minut
opportunity to comment and have their views taken into account before the committee s decisions a

The remuneration committee met five times in 2004 and further information about its work is given on page
committee s terms of reference are available from the company secretary and are displayed on the Co
www

Risk overs

The risk oversight committee comprises Mr van den Bergh (chairman), Mr Brown and Sir Julian Horn-Smith. All
directors are invited to attend meetings if they wish. The risk oversight committee s duties include overseeing t
implementation and maintenance of the Group s overall risk governance framework, risk appetite, risk strategy
ensure they are in line with emerging regulatory, corporate governance and industry best practice. The committe
the Group s risk exposures; facilitates the involvement of non-executive directors in risk issues and aids their u
these issues; oversees adherence to Group risk policies and standards and considers any material amendmen
reviews the work of the Group

Attendan

The attendance of directors at board meetings and at meetings of the audit, nomination, remuneration and
committees during 2004

	Board	Audit committee	Nomination committee	Remuneration committee	
Number of meetings during the year	**9**	**5**	**3**	**5**	**4**
Current directors who served during 2004					
W C G Berndt	8			5	
Ewan Brown1	9	5			4
J E Daniels	9				
M E Fairey	9				
G J N Gemmell	9	5			
D S Julius	8		3	4	
A G Kane	9				
A A Knight	8	5			
G T Tate2	3				
M A van den Bergh	9		3		
H A Weir3	6				
Former directors who served during 2004					
P G Ayliffe4	9				
C S Gibson-Smith5, 6	9		2	5	
Sir Tom McKillop7	7			4	2
D P Pritchard6	9				4
Lord Selborne8	4	2	1		
S C Targett9	3				

1 Appointed to the nomination committee from 3 March 2005
2 Appointed to the board from 1 August 2004
3 Appointed to the board from 26 April 2004
4 Left the board on 31 January 2005
5 Appointed to the nomination committee from 21 May 2004
6 Left the board on 5 May 2005
7 Left the board on 31 December 2004
8 Left the board on 21 May 2004
9 Left the board on 30 April 2004

I

The board of directors is responsible for the establishment and review of the Lloyds TSB Group s system of
which is designed to ensure effective and efficient operations, quality of internal and external reporting, intern
compliance with laws and regulations. It should be noted, however, that such a system is designed to man

eliminate, the risk of failure to achieve business objectives. In establishing and reviewing the system of inte
directors have regard to the nature and extent of relevant risks, the likelihood of a loss being incurred and the cos
follows, therefore, that the system of internal control can only provide reasonable but not absolute assurance aga

The directors and senior management are committed to maintaining a control-conscious culture across all are
This is communicated to all employees by way of published policies and procedures and regular management
business risks are identified, and these are controlled by means of procedures such as physical controls, credit, tr
authorisation limits and segregation of duties. In addition, there is an annual control self-assessment exercise u
key businesses and head office functions review specific controls a

---

accuracy of their assessments. The material controls covered by this assessment include risk management, organis
legal and regulatory, finance and information technology. As in previous years, this exercise was completed for
31 December 2004. All returns have been satisfactorily completed and appropriately certified. There are w
budgeting and forecasting procedures in place and reports are presented regularly to the board detailing the
principal business, variances against budget and prior year, and other performance data. Internal controls cont
which assist the board in identifying new and e

The effectiveness of the internal control system is reviewed regularly by the board and the audit committee, whic
reports of reviews undertaken around the Lloyds TSB Group by its risk management function, including Group C
Group Audit. The audit committee receives reports from the Company s auditors, PricewaterhouseCoopers LLP
details of significant internal control matters that they have identified) and has a discussion with the auditors at le
without executives present, to ensure that there are no unresolved iss

Discl

As of 31 December 2004, the Lloyds TSB Group, under the supervision and with the participation of the Lloy
management, including the group chief executive and the group finance director, performed an evaluation of the e
the Lloyds TSB Group s disclosure controls and procedures. Based on this evaluation, the group chief exec
finance director concluded that the Lloyds TSB Group s disclosure controls and procedures are effective for gath
and disclosing the information the Lloyds TSB Group is required to disclose in the reports it files under the Secur
Act of 1934, within the time periods specified in the SEC s rules and forms. The Lloyds TSB Group s manag
applied its judgement in assessing the costs and benefits of such controls and procedures, which by their nature ca
reasonable assurance regarding management s co

There has been no change in the Lloyds TSB Group s internal control over financial reporting that occurred d
covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Lloy
internal control over fina

MAJOR SHAREHOLDERS AND RELATED PARTY TRA

Majo

The Capital Group Companies, Inc had an interest of 5.003% of the nominal value of the issued share capital
Group plc at 31 December 2004. Lloyds TSB Group plc does not know of any other shareholder owning benefici
indirectly, five per cent or more of the shares of Lloyds TSB Group plc, or of any shareholder having more than
th

At 31 December 2004, those who were directors of Lloyds TSB Group plc on that day beneficially owned the foll
shares, not inc

Title of class	Identity of person or group	Amount owned	Per
Ordinary shares, nominal value 25 pence each	Directors (14 persons)	436,033	0.01

In addition, those directors held, as at 31 December 2004, options to acquire 10,093,747 shares, all of whic
pursuant to the executive share option schemes, sharesave share option schemes and share

All shareholders within a class of the Company s shares have the same voting rights. Lloyds TSB Group pl
controlled directly or indirectly by another corporation or by any government and Lloyds TSB Group plc is
arrangements which might result in a ch

Related part

Lloyds TSB Group, as at 31 December 2004, had related party transactions with 4 directors and 22 officers. Se
Consolidated Financial Statements. The transactions in question were made in the ordinary course of business
substantially the same terms, including interest rates and collateral, as those prevailing at the time for compara
with other persons, and did not involve more than the normal risk of collectibility or present other unfavo

R

U

The cornerstone of the regulatory regime in the UK is the Financial Services and Markets Act 2000 (FSMA
force on 1 December 2001 (a date known as N2) and replaced much of the previous legislation under which ba
companies and investment businesses had been authorised and supervised. In accordance with the provisions o
30 November 2002, the Financial Services Authority (FSA) completed the process of assuming responsibility
and oversight of a wide range of financial services activities in the UK. Most recently these responsibilities ha
include the regulation of mortgage lending, sales and administration (31 October 2004) and general insu
administration (15 January 2005). The FSA s Integrated Prudential Sourcebook (currently due to be imple
between 2004 and 2007) will bring together their main prudential requirements organised by risk (for exam
market risk, insurance risk etc) replacing the Interim Prudential Sourcebooks, which are organised by types of bus
the Integrated Prudential Sourcebook is based on European Union (EU) directives and other international s
which are currently

Any individual who carries out what is known as a controlled function in a financial services firm needs to b
FSA. Controlled functions include those of directors, the finance officer, risk management, compliance, anti-mo
and internal audit. The FSA has established a Code of Practice for Approved Persons; shortfalls in their cond
sanctions against the individu

The regulatory environments in which the different businesses within the Lloyds TSB Group operate are di

The FSA carries out its supervision of the UK banking sector through the collection of information from a serie
returns covering sterling and non-sterling operations, meetings with the senior management of the banks and re
from skilled persons. The regular reports include operating statements and returns covering (amongst other
adequacy, liquidity, large single exposures and large exposures to related borrowers, lendings by indu
geographical area, maturity analyses and foreign exchange activities. A risk-based approach for the supervision o
introduced in 1998; under this approach, the starting point for the FSA s supervision of a bank is based on a syster
that bank s risk profile. Having determined the level of inherent risk in the bank a minimum capital adequac
established, which a bank is required to m

Capital adequacy returns are submitted on a periodic basis for all the authorised institutions within the Lloyds TSB
are six UK authorised banks within the Lloyds TSB Group: Lloyds TSB Bank, Lloyds TSB Scotland, Cheltenham
Lloyds TSB Private Banking, Scottish Widows Bank and AMC Bank. Returns are also submitted on a consolidat
Lloyds TSB Gro

Depositors (who are eligible claimants) in the UK are provided with protection for their deposits with authoris
Depositors with an institution which has been declared insolvent are entitled to receive 100 per cent of the first £2,
cent of the next £33,000 of their protected deposits from the Financial Services Compensation Scheme, subject
amount of £31,700, including both principal and accrued interest. All authorised institutions are required to be m
Financial Services Compensation Scheme and are subject to a levy in proportion to their deposit base, which inclu
sterling, other European Economic Area currencies and euro, to finance the Compen

The Banking Code (the Code) is a voluntary code agreed by UK banks and building societies which became
with subsequent revisions in 1994, 1997, 1999, 2001 and 2003, and which has been adopted by Lloyds TSB Gr
defines the responsibilities of the banks and building societies to their personal customers in connection with t
their UK accounts and sets out minimum standards of service that these customers can expect from institutions w
to the Code. Compliance with the Code is monitored by the Banking Code St

The Business Banking Code is a voluntary code agreed by UK banks which became effective at the end of Marc
subsequent revision in 2003 and which has been adopted by Lloyds TSB Group. The Business Banking C
responsibilities of the banks to their smaller business customers in connection with the operation of their accou
minimum standards of service that such customers can expect from institutions which subscribe to the Business
Compliance with the Business Banking Code is monitored by the Banking Code St

Invest

The FSA is responsible for the authorisation and supervision of those firms which are engaged in investment busi
in the FSMA. As part of the authorisation process, the FSA reviews applicants to ensure that they satisfy the ne
including honesty, competence and financial soundness, to engage in regulated activity. Lloyds TSB Gro
businesses became authorised by the FSA through being grandfathered as having been authorised under prev
carry on invest

The FSA s regulatory approach aims to focus and reinforce the responsibility of the management of each ap
ensure that it takes reasonable care to organise and control its affairs responsibly and effectively and that
maintains adequate risk management systems. The FSA Handbook of Rules and Guidance (the Handbook) sets
for Businesses and the rules to which investment businesses are requ

Under the FSMA a compulsory single, industry wide, investor s compensation scheme, the Financial Service
Scheme has been set up. The Scheme is financed by a levy system and the FSMA allows for the establishment of
for different kinds of business and for different maximum amounts of claim. The maximum award for co
investments is £48,000 (100 per cent of the first £30,000 and 90 per cent of the

FSA s Inter-Professionals Code (IPC) covers the Lloyds TSB Group s dealings in investment and non-investmen
trading in the wholesale markets in Non-Investment Products (sterling, foreign exchange and bullion wholesale d
and the spot and forward foreign exchange and bullion markets), is covered by the NIPs Code, which is a draft co
a wide cross-section of market practitioners, using as its base the former London Code of Conduct, whilst wor
with FSA s v

Given that some firms will operate both in non-investment products and investment product markets, the NIPs
drafted with a view to making its provisions consistent, where appropriate, with the relevant parallel provisi
Handbook. The provisions of the NIPs Code are intended only as guidance on what is currently believed to
practice in the NIPs wholesale markets. The code has no statutory underpinning except where it refers t
requirements, although the FSA may take into account a firm s compliance or otherwise with this and other cod
decisions o

The insurance companies within the Lloyds TSB Group also became authorised by the FSA through being
having been authorised under previous legislation. While the authorisation and supervision of insurance compani
the same FSA regulatory approach as other investment companies

- Restrict the carrying out of insurance business in the UK to persons authorised by the FSA.
- Require the separate identification of the long-term business assets of an insurance company, and require th
are then applied only for the purpose of that business.
- Prevent an insurer, and its parent, from declaring a dividend when long-term business assets do not exceed
liabilities. Furthermore, surplus assets in the long-term fund can only be transferred to the extent that there
surplus.
- Require, and define the role of, an actuarial function holder for each insurance company carrying out lo
business in the UK. The actuarial function holder is responsible for advising the firm s management on the
the firm runs, in particular in respect of its ability to meet liabilities to policyholders and the capital require
support the business, and to monitor those risks.
- Require, and define the role of, a with-profits actuary for each major with-profits insurance fund. The w
is responsible for advising the firm s management on key aspects of discretion in the management of with-
business.
- Require the directors to prepare an annual report on the solvency position of the insurer. The valuation basi
defined and there are limits on the extent to which certain categories of assets are allowable in determining
position. For with-profits business the minimum capital requirements may be increased if a market-consiste
of with-profits fund assets and liabilities reveals a lower surplus than that on a regulatory basis. A marke
realistic) valuation in theory provides a price (value) at which a willing participant would take on the lia
- Require, for the purpose of this annual solvency report, that the actuarial function holder must advise the di
regarding appropriate methods and assumptions, which must be permitted by the Handbook. (For with-prof
the with-profits actuary must also advise the directors as to whether the assumptions are consistent with the
application of its published Principles and Practices of Financial Management). The actuarial function hold
calculate the value of long-term liabilities using the methods and assumptions determined by the directors.
results are contained in the directors solvency report.
- Require the maintenance of a prescribed solvency margin at all times. The amount of the solvency margin
the amount and type of business an insurance company writes. Failure to maintain the required solvency m
regulator grounds for intervention.
- Require an insurer to apply appropriate systems and controls to all aspects of its business.
- Require an insurer to carry out an Individual Capital Assessment of the capital requirements of the busi
the results with the FSA. The FSA may give Individual Capital Guidance to vary the results depending,
FSA assessment of an insurer s systems and controls.

The Financial Services Compensation Scheme also applies to general and long-term insurance business writte
authorised by the FSA or by the UK branch of a European Economic Area firm carrying

regulated activity . The limit of compensation in respect of long-term insurance contracts is 100 per cent of the
90 per cent of the remainder of the value of the contract with

Other relevant legislation a

The Consumer Credit Act 1974 regulates both brokerage and lending activities in the provision of perso
unsecured lending. The Data Protection Act 1998 regulates, among other things, the retention and use of
individual customers. The Unfair Terms in Consumer Contracts Regulations 1994 came into force in Ju
Regulations together with the Unfair Contract Terms Act 1977 apply to certain contracts for goods and services en
customers. The main effect of the Regulations is that a contractual term covered by the Regulations which is u
enforceable against a consumer. These Regulations apply, among other things, to mortgages and related produc

From 31 October 2004, lenders and mortgage intermediaries dealing with customers in the UK who want a loan s
home became subject to statutory regulation by the FSA. This replaced the previous system of voluntary regul
Mortgage Code Compliance Board (MCCB). All lenders and intermediaries within the Group involved in
administration of residential mortgages have had to obtain authorisation

Lenders and Mortgage intermediaries are required to comply with the FSA Handb

- The high-level standards which apply to each firm and its Approved Persons.
- The Mortgage Conduct of Business (MCOB) rules which set out the requirements for aspects such as advis selling, product disclosure, financial promotions (including compliance with the clear, fair and not misleadi requirements), responsible lending, arrears and repossessions.
- The Training & Competence (T&C) Commitments - the detailed T&C rules and guidance also apply to firm advice to retail customers.
- The financial safeguards, e.g. the requirement to maintain minimum capital resources and rules relating to c
- The complaint handling requirements.
- Requirements for regulatory reporting this includes, where necessary, the completion of the RMAR (Reta Activities Return), MLAR (Mortgage Lending & Administration Return) and PSD (Product Sales Data) ret requirement to check standing data annually, and to submit complaints data every 6 months.

From 14 January 2005, the sale and administration of general insurance (for example, motor, property and cred
and pure protection insurance (for example, term assurance, critical illness and income protection), known
non-investment insurance, became subject to statutory regulation by the FSA, replacing the previous syste
regulation under the General Insurance Standards Council and Association of British Insurers. The move to statu
under the FSA also implemented the EU Insurance Mediation Directive (IMD) in the UK. The requirements o
other EU directives, particularly the Distance Marketing Directive (DMD), have directly led to many of the new r
FS

All intermediaries within the Group involved in the selling and administration of non-investment insurance hav
obtain authorisation from the FSA, or obtain exemption by becoming an Appointed Representative of a firm wh
the necessary FSA

Insurance intermediaries are required to comply with the FSA Handb

- The high-level standards which apply to each firm and its Approved Persons.
- The Insurance Conduct of Business (ICOB) rules which set out the requirements for aspects such as advisin status disclosure, product disclosure, financial promotions (including compliance with the clear, fair and no requirements), cancellation rights and claims handling.
- The Training & Competence (T&C) Commitments - the detailed T&C rules and guidance also apply to firm advice to retail customers.
- The financial safeguards, e.g. the requirement to maintain minimum capital resources and rules relating to c
- The complaint handling requirements.
- Requirements for regulatory reporting this includes, where necessary, the completion of the RMAR (Reta Activities Return) and PSD (Product Sales Data) return, a requirement to check standing data annually, and complaints data every 6 months.

The Financial Ombudsman Service (FOS) was established at N2 pursuant to the FSMA to provide cust
independent service designed to resolve disputes where the customer is not satisfied with the response rec
regulated firm. The FOS resolves disputes that cover most financial products and services provided in (or fr
Kingdom, from insurance and pension plans to bank accounts and investments, for eligible complainants, private i

small businesses, charities or trusts. The decisions made by the FOS are binding o

section 229 of the FSMA, if a complaint is determined in favour of the complainant, the determination may in
award against the firm of such amount as the Ombudsman considers fair compensation for financial loss and
maximum limit of £100,000, or a direction that the firm take such steps in relation to the complainant as th
considers just and appropriate o

As part of the two-year review of the FSMA led by HM Treasury, the FSA and FOS have been asked to review ce
the FOS although there is no intention to change the structure established

EU directives, which are required to be implemented in member states through national legislation, have a strong
the framework for supervision and regulation of financial services in the UK. The directives aim to harmonise fir
regulation and supervision throughout member states by setting out minimum standards in key areas such as ca
and deposit and investor compensation schemes. The directives also require member states to give mutual rec
other s standar

Financial institutions, such as those in the Lloyds TSB Group, are primarily regulated in their home state by a loca
the EU directives prescribe minimum criteria for the authorisation of such institutions and the prudential supervi
to them. Under the Second Banking Co-ordination Directive the concept of mutual recognition has been extende
passport concept; this gives a bank which has been authorised in its home state the freedom to establis
provide cross-border services into, other member states without the need for additional loca

Similarly, under the Investment Services Directive or the UCITS Management Directive, investment firm
equivalent passport . Despite the application of the passports a member state can impose certain requireme
banking and investment activities in its boundaries, including conduct of

Credit institutions and investment firms are required to make adequate capital provisions for risks entered into: th
out the deemed quality and acceptable relative proportions of various types of capital. The directives also regul
counterparty exposures, provide for the supervision of consolidated financial groups capital adequacy requirem
permissible exposures to individual or linked

During 2004 the European Commission issued the Draft Capital Requirements Directive for banks and investmen
based on the revised Basel Capital Accord, which is being developed by the Basel Committee on banking supe
likely to result in comprehensive changes to the capital adequacy regulations applicable to Lloyds TSB Group. Th
the new framework cover th

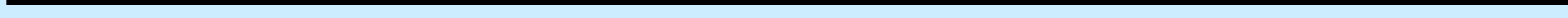
- Minimum capital requirements and methodologies for allocation of regulatory capital for credit and other ri
operational risk.
- A supervisory review process, including the setting of capital ratios by bank supervisors.
- Improvement of transparency in the financial system by reliable and timely disclosure of risk information.

The Capital Requirements Directive will come into force for all European banks at the start of 2007, although the f
applied in the UK are only likely to be published in 2006. These will be subject to further consultation, and t
Group has been playing a full part with the regulatory authorities in attempting to shape them. The Lloyds TSB G
an Internal Ratings Based approach to credit risk and an Advanced Measurement Approach to operational risk.
considerable investment is being made in order to meet the standards required for these more advanced approac
meeting the compliance imperative, benefits to the Group will accrue through further enhancement of our risk m
capital allocati

The UK financial services industry will also be affected by a number of other initiatives currently being develo
work continues on the Financial Services Action Plan, which is intended to create a single market for financial ser
and there are proposals for other directives, such as a new Consumer Credit Directive and the Third EU Mon
Directive both of which will be of particular relevance to the Lloyds TSB Group. The Lloyds TSB Group w
monitor the progress of these initiatives, provide specialist input on their drafting and assess the likely impact o

Re

Lloyds TSB Group operates in many countries around the world and its overseas branches and subsidiarie
reporting and reserve requirements and controls imposed by the relevant central banks and regulat



LISTING INI

The information in this section has been extracted from publicly available documents from various sources, incl prepared materials from the London Stock Exchange, and has not been prepared or independently verified by

The ordinary shares of Lloyds TSB Group plc are listed and traded on the London Stock Exchange under the sy The prices for shares as quoted in the official list of the London Stock Exchange are in pounds sterling. The shows the reported high and low closing prices for the ordinary shares on the London Stock Exchange. This inform extracted from publicly available documents from various sources, including officially prepared materials fr Stock Exchange, and has not been prepared or independently verified by the Lloy

	Price per share (in pence)	Price per share (in pence)
	High	Low
Annual prices:		
2004	476.25	391.75
2003	483.00	295.75
2002	817.00	427.50
2001	772.00	590.00
2000	774.50	517.00
1999	1,060.00	725.00
1998	1,070.50	575.50
Quarterly prices:		
2005		
First quarter	509.00	463.50
2004		
Fourth quarter	473.25	415.00
Third quarter	436.00	391.75
Second quarter	441.50	411.00
First quarter	476.25	405.00
2003		
Fourth quarter	448.00	396.00
Third quarter	483.00	413.75
Second quarter	476.75	326.00
First quarter	459.00	295.75
Monthly prices:		
May 2005	469.50	453.00
April 2005	482.50	446.50
March 2005	508.00	472.50
February 2005	509.00	489.75
January 2005	496.25	463.50
December 2004	473.25	426.50

On 21 June 2005, the closing price of shares on the London Stock Exchange was 476.25 pence, equivalent to $ translated at the Noon Buying Rate of $1.842 per £1.00 or

Lloyds TSB Group plc s American Depositary Receipts (ADRs) have been traded on the over-the-counter mar the symbol LLDTY since March 2000. Since 27 November 2001 Lloyds TSB Group plc ADSs have been l York Stock Exchange under the symbol LYG . The prices for Lloyds TSB Group plc s ADRs, as quoted below Each ADS represents four ordinary shares. The following table shows the reported high and low closing prices f the over-the-counter ma

	Price per ADR (in US dollars)	Price per ADR (in US dolla
	High	Low
Annual prices:		
2001 (to 26 November 2001)	46.00	34.75

2000	45.27	33.50
Quarterly prices:		
2001		
Fourth quarter (to 26 November 2001)	43.88	38.25
Third quarter	44.00	35.50
Second quarter	43.94	38.94
First quarter	46.00	34.75

The following table shows the reported high and low closing prices for ADSs on the New York St

	Price per ADS (in US dollars)	Price per ADS (in US dollars)
	High	Low
Annual prices:		
2004	36.88	29.47
2003	32.55	19.65
2002	48.55	27.85
2001 (from 27 November 2001)	44.99	41.30
Quarterly prices:		
2005		
First quarter	39.06	35.12
2004		
Fourth quarter	36.88	31.35
Third quarter	31.61	29.47
Second quarter	32.90	29.59
First quarter	36.36	30.15
2003		
Fourth quarter	32.55	27.07
Third quarter	31.16	26.43
Second quarter	32.35	20.98
First quarter	29.79	19.65
Monthly prices:		
May 2005	35.76	33.32
April 2005	36.50	34.19
March 2005	39.06	35.69
February 2005	38.91	37.37
January 2005	37.77	35.12
December 2004	36.88	33.06

On 21 June 2005, the closing price of ADSs on the New York Stock Exchan

Lloyds TSB Group plc has paid an interim and final dividend each year since the merger of TSB Group plc and L
in 1995. Dividends are typically paid in May and October and the record date for the purpose of determining th
who will be entitled to a dividend is established a number of weeks before the dividend payment date. TSB Gr
was re-named Lloyds TSB Group plc after the merger, has paid an interim and final dividend every year since its
London Stock Exchange in September 1986, with the exception of 1986 when no final dividend was paid. Lloyds
paid a dividend every year since its incorporation as Lloyds Banking Company L

Lloyds TSB Group plc s ability to pay dividends is restricted under UK company law. Dividends may only be pai
profits are available for that purpose. In the case of a public limited company, a dividend may only be paid if the
assets is not less than the aggregate of the called-up share capital and undistributable reserves and if the payment
will not reduce the amount of the net assets to less than that aggregate. In addition, a company cannot pay a divide
UK insurance subsidiaries is insolvent on a regulatory valuation basis or in the case of regulated entities, if th
dividend results in regulatory capital requirements not being met. Similar restrictions exist over the ability of Lloy
plc s subsidiary companies to pay dividends to their immediate parent companies. Furthermore, in the case of Llo
plc, dividends may only be paid if sufficient distributable profits are available for distributions due in the fi
certain preferred securities. The board has the discretion to decide whether to pay a dividend and the amount of a
making this decision, the board is mindful of the level of dividend cover and, consequently, profit growth may
result in increases in the dividend. The board recognises the importance attached by shareholders to the Lloy
dividend. In the case of American Depositary Shares (ADSs), dividends are paid through The Bank of New Y
paying and

The table below sets out the interim and final dividends which were declared in respect of the ordinary shares
2000 through 2004. The sterling amounts have been converted into US dollars at the Noon Buying Rate in

	Interim dividend per share £	**Interim dividend per share $**	**Final dividend per share £**	**Final dividend per share $**
2000	0.093	0.136	0.213	0.306
2001	0.102	0.149	0.235	0.344
2002	0.107	0.167	0.235	0.374
2003	0.107	0.178	0.235	0.419
2004	**0.107**	**0.190**	**0.235**	**0.447**

There are no UK governmental laws, decrees or regulations that affect the remittance of dividends or other shareho
to non-residents of the UK who hold shares of Lloyds T

MEMORANDUM AND ARTICLES OF ASSOCIATION OF LLOYDS TSB

A summary of the material provisions of Lloyds TSB Group plc s memorandum and articles of association was i
Lloyds TSB Group plc s registration statement filed with the SEC on 25 September 2001 and is therefore incor
annual report by reference to

EXCHANGE

There are no UK laws, decrees or regulations that restrict Lloyds TSB Group plc s export or import of capit
availability of cash and cash equivalents for use by Lloyds TSB Group, or that affect the remittance of div
shareholders payments to non-UK holders of Lloyds TSB Group plc shares, expect as otherwise set o

The following discussion is intended only as a general guide to current UK tax legislation, what is understood to
HM Revenue & Customs practice and the terms of the current UK/US income tax treaty (the Treaty), all of w
change at any time, possibly with ret

The Treaty for the avoidance of double taxation with respect to taxes on income entered into force following t
instruments of ratification by the UK Parliament and the US Senate on 3

The UK HM Revenue & Customs is the UK government department responsible for assessing and collecting U
The discussion is intended as a general guide and only applies to persons who are the beneficial owners of their
or ADSs. References below to a US holder are to that term as defined, and subject to the exclusions described in th
below under US federal income tax considerations . It may not apply to certain shareholders or ADS holders,

Tax can be complicated and individual circumstances may need to be considered in more detail. Any person who
as to his tax position should consult his own profe

Taxation of ch

A disposal (or deemed disposal) of ordinary shares or ADSs by a shareholder or holder of ADSs resident or (i
individual) ordinarily resident for tax purposes in the UK may, depending on the shareholder s or ADS h
circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowa
purposes of UK taxation on ch

Individuals, other than US holders, temporarily non-res

A shareholder or ADS holder who is an individual and who has, on or after 17 March 1998, ceased to be residen
resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of or
ADSs during that period may be liable, on return to the UK, to UK taxation on chargeable gains arising durin
absence, subject to any available exemption, relief and/or fo

Subject to the provisions set out in the next paragraph in relation to temporary non-residents, US holders gene
liable for UK tax on chargeable gains unless they carry on a trade, profession or vocation in the UK through a b
and the ordinary shares or ADSs are or have been used or held by or for the purposes of the branch or agency, in w
US holder might, depending on individual circumstances, be liable to UK tax on chargeable gains on any disposi
shares or ADSs. An individual US holder who is only temporarily not resident in the UK may, under anti-avoida
still be liable for UK tax on chargeable gains realised, subject to any available exemption, relief and/or fo

A US holder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily
purposes in the UK for a period of less than five years of assessment and who disposes of ordinary shares or A
period may be liable, on return to the UK, to UK taxation on chargeable gains arising during the period of absence
available exemption, relief and/or fo

Other non-UK r

Subject to the provisions set out above under Individuals, other than US holders, temporarily non-re
shareholders or ADS holders who are neither resident nor ordinarily resident in the UK generally will not be liabl
chargeable gains unless they carry on a trade, profession or vocation in the UK through a branch or agency a
shares or ADSs are or have been used or held by or for the purposes of the branch or agency, in which case such
ADS holder might, depending on individual circumstances, be liable to UK tax on chargeable gains on an
ordinary shares or ADSs. An individual holder of ordinary shares or ADSs who is only temporarily not resident
under anti-avoidance legislation, still be liable for UK tax on chargeable gains realised, subject to any available e

and/or for

Taxatio

Lloyds TSB Group will not be required to withhold tax at source when paying a dividend on the ordinary s

An individual shareholder or ADS holder who is resident in the UK for tax purposes will be entitled to a tax cred
any dividend received from the Lloyds TSB Group and will be taxable on the gross dividend, which is the a
dividend received and related tax credit. The value of the tax credit will be equal to one-ninth of the dividend
therefore, 10 per cent of the gross dividend). The gross dividend will be treated as an individual s marginal taxa
tax credit will, however, be treated as discharging the individual s liability to income tax in respect of the gross
and except to the extent that the gross dividend

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threshold for the higher rate of income tax. A UK resident individual shareholder or ADS holder who is liable to
the higher rate (currently 40 per cent) will be subject to tax at the rate applicable to dividends for such shareh
holders (currently 32.5 per cent) on the gross dividend. The tax credit will be set against but will not fully
shareholders or ADS holders tax liability on the gross dividend and they will have to pay additional tax equal
the gross dividend, being 25 per cent of the dividend received, to the extent that such sum, when treated as margina
above the threshold for the higher rate

There will be no payment of the tax credit or any part of it to an individual whose liability to income tax on the di
related tax credit is less thar

UK resident shareholders or ADS holders who are not liable to UK tax on dividends, including pension funds and
not be entitled to the payment of any tax credits in respec

Subject to certain exceptions, such as for dealers in securities and for some insurance companies with oversea
resident corporate shareholders or ADS holders will generally not be subject to corporation tax in respect of divi
from Lloyds TSB Group, but will not be entitled to the payment of any tax credit with respect to

Lloyds TSB Group will not be required to withhold tax at source when paying a dividend on the ordinary shares or

Other non-UK re

Lloyds TSB Group will not be required to withhold tax at source when paying a dividend on the ordinary share
holder, other than a US holder, who is not resident for tax purpo

Holders of ordinary shares or ADSs, other than US holders, who are not resident for tax purposes in the UK and
dividend from the Lloyds TSB Group will not have any further UK tax to pay in respect of the dividend, but will n
able to claim any additional payment in respect of the dividend from the UK HM Revenue & Customs under
Doub

Stamp duty and stamp d

UK residents, US holders and other non-UK re

Any conveyance or transfer on sale of ordinary shares (whether effected using the CREST settlement system
subject to UK stamp duty or stamp duty reserve tax (SDRT). The transfer on sale of ordinary shares will be lia
UK stamp duty or SDRT, generally at the rate of 0.5 per cent of the consideration paid (rounded up to the next m
the case of stamp duty). Stamp duty is usually the liability of the purchaser or transferee of the ordinary shares. An
agreement to transfer such ordinary shares will be liable to SDRT, generally at the rate of 0.5 per cent of the cons
but such liability will be cancelled, or, if already paid, refunded, if the agreement is completed by a duly stamped
six years of the agreement having become unconditional. SDRT is normally the liability of the purchaser or tr
o

Where Lloyds TSB Group issues ordinary shares or a holder of ordinary shares transfers such shares to the custod
for the depositary to facilitate the issue of ADSs to him representing the ordinary shares or to a person prov
services (or their nominee or agent), a liability to UK stamp duty or SDRT at the rate of 1.5 per cent (rounded
multiple of £5 in the case of the stamp duty) of either the issue price or, in the case of transfer, the listed price
shares, calculated in sterling, will arise. Where a holder of ordinary shares transfers such shares to the custodian
the depositary or clearance service this charge will generally be payable by the person receiving the ADSs or t
ordinary shares into the cle

A liability to stamp duty at the fixed rate of £5 will arise as a result of the cancellation of any ADSs with the ordin
they represent being transferred to th

No liability to UK stamp duty or SDRT will arise on a transfer of ADSs provided that any document that effects
not executed in the UK and that it remains at all subsequent times outside the UK. An agreement to transfer ADS
rise to a liab

US federal income tax c

The following summary describes material US federal income tax consequences of the acquisition, ownership and
ADSs or ordinary shares to US holders (defined below), but it does not purport to be a comprehensive descripti
tax considerations that may be relevant to a decision to acquire such securities. The summary applies only to U
hold ADSs or ordinary shares as capital assets and does not address special classes of ho

- certain financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- holders holding ADSs or shares as part of a hedge, straddle, conversion or other integr

holders whose functional currency for US federal income tax purposes is not the US dollar;

holders liable for alternative minimum tax;

holders who acquired ADSs or shares pursuant to the exercise of any employee stock option or otherwise a
compensation;

partnerships or other entities classified as partnerships for US federal income tax purposes; or

a holder that owns 10 per cent or more of the voting shares of Lloyds TSB Group plc.

In addition, the summary is based in part on representations of the Depositary and assumes that each obligation pro
otherwise contemplated by the Deposit Agreement or any other related document will be performed in accordance
The US Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that a
with the claiming of foreign tax credits for US holders of ADSs. Such actions would also be inconsistent with the
tax applicable to dividends received by certain non-corporate US holders. Accordingly, the analysis of the redu
applicable to dividends received by certain non-corporate US holders described below could be affected by actio
taken by parties to whom ADSs are pre-released. The summary is based upon tax laws of the US including the In
Code of 1986, as amended to the date hereof (the Code), administrative pronouncements, judicial decisions an
and proposed Treasury Regulations, as well as the Treaty, changes to any of which may affect the tax conseque
herein, possibly with retroactive effect. Prospective purchasers of the ADSs or ordinary shares should consul
advisers as to the US, UK or other tax consequences of the purchase, ownership and disposition of such se
particular circumstances, including the effect of any US state or

As used herein, a US holder is a beneficial owner of ADSs or shares, that is, for US federal inc

a citizen or resident of the US;

a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the US o
political subdivision thereof; or

an estate or trust the income of which is subject to US federal income taxation regardless of its source.

For US federal income tax purposes, US holders of ADSs generally will be treated as the owners of the unde

Taxation

To the extent paid out of current or accumulated earnings and profits of Lloyds TSB Group plc (as determined
with US federal income tax principles), distributions made with respect to ADSs or ordinary shares (other than
distributions of shares of Lloyds TSB Group plc or rights to subscribe for shares of Lloyds TSB Group plc) will b
the income of a US holder as ordinary dividend income from non-US sources. Such dividends will not be
dividends-received deduction generally allowed to corporations u

Subject to applicable limitations that may vary depending upon a holder s individual circumstances and the d
regarding concerns expressed by the US Treasury, dividends paid to certain non-corporate US holders in taxable y
before 1 January 2009 will be taxable at a maximum tax rate of 15 per cent. Non-corporate US holders should co
tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at this f

The amount of the dividend will equal the US dollar value of the pounds sterling received, calculated by r
exchange rate in effect on the date such distribution is received by the Depository (in the case of ADSs) or by th
the case of shares) regardless of whether the payment is converted into US dollars on the date of receipt. If the p
received as a dividend are not converted into US dollars on the date of receipt, then the US holder s tax ba
sterling received will equal such dollar amount and the US holder may realise an exchange gain or loss on
conversion into US dollars. Any gains or losses resulting from the conversion of pounds sterling into US dollars
as US source ordinary

Taxation

Gain or loss realised by a US holder on a sale or exchange of ADSs or shares will be subject to US federal incom
gain or loss in an amount equal to the difference between the US holder s tax basis in the ADSs or shares and the
on the disposition. Gains or losses, if any, will generally be US source and will be long-term if the ADSs or share
more

Deposits and withdrawals of ordinary shares in exchange for ADSs will not result in taxable gain or loss for US

Information reporting and back

Dividends paid on, and the sale proceeds from, ADSs or shares that are made within the US or through cer
financial intermediaries generally are subject to information reporting requirements. Such dividends may als
backup withholding unless

is a corporation or comes within certain other exempt categories and, when required, demonst

provides a taxpayer identification number on a properly completed Form W-9 or a substitute form and certi
loss of exemption from backup withholding has occurred and that such holder is a US person.

Any amount withheld under these rules will be creditable against the US holder s federal income tax liability. A
does not provide a correct taxpayer identification number may be subject to ce

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WHERE YOU CAN FIND MORE INI

The documents concerning us which are referred to herein may be inspected at the Securities and Exchange Com
You may read and copy any document filed or furnished by us at the SEC s public reference rooms in Washi
York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the reference rooms
maintains a website at www.sec.gov which contains, in electronic form, each of the reports and other informatio
filed electronically

ENFORCEABILITY OF CIVIL I

Lloyds TSB Group plc is a public limited company incorporated under the laws of Scotland. Most of Lloyds T
directors and executive officers and certain of the experts named herein are residents of the United Kingdom
portion of the assets of Lloyds TSB Group plc, and a substantial portion of the assets of such persons, are loca
United States. As a result, it may not be possible for investors to effect service of process within the United St
persons or to enforce against them judgements of US courts, including judgements predicated upon the civil liab
of the federal securities laws of the United States. Furthermore, Lloyds TSB Group plc has been advised by its En
that there is doubt as to the enforceability in the United Kingdom, in original action or in actions for enforcement
of US courts, of civil liabilities, including those predicated solely upon the federal securities laws of the

RIS

Set out below are certain risk factors which could affect the Lloyds TSB Group s future results and cause them
different from expected results. The factors discussed in this report should not be regarded as a complete and
statement of all potential risks an

Lloyds TSB Group s businesses are subject to inherent risks concerning borrower credit quality as well as g
international economic conditions. Development of adverse conditions in the UK or in other major economi
profitab

Lloyds TSB Group s businesses are subject to inherent risks regarding borrower credit quality as well as gener
conditions. Each of these can change the level of demand for, and supply of, Lloyds TSB Group s products and s
in the credit quality of Lloyds TSB Group s UK and/or international borrowers and counterparties could re
Lloyds TSB Group s assets, and increase provisions for bad and doubtful debts. In addition, changes in economi
result in a deterioration in the value of security held against lending exposures and increase the risk of loss
borrower default. Any significant increase in the UK unemployment rate would reduce profits from the insu
Furthermore, a general deterioration in the UK economy would also reduce Lloyds TSB Group s profit from both
and financial services businesses. A general deterioration in any other major world economy could also adversely
TSB Group s profitability. See Operating and financial review and prospects Risk mana

Lloyds TSB Group s businesses are inherently subject to the risk of market fluctuations, which could reduc

Lloyds TSB Group s businesses are inherently subject to the risk of market fluctuations. The most significant ma
TSB Group faces are those that impact the Group s pension schemes principally equity risk and interest rate risk
movements would have an effect upon the financial condition of the pension schemes which would be reflecte
TSB Group s financial statements. Interest rate risk and foreign exchange risk arises from banking activities wh
present in the insurance businesses. See Operating and financial review and prospects Risk management
discussio

Lloyds TSB Group s insurance businesses are subject to inherent risks relating to changing demographic
adverse weather and similar contingencies outside its control. Development of adverse conditions could reduc

Lloyds TSB Group s insurance businesses are subject to inherent risk relating to changing demographic devel
weather and similar contingencies outside its control, both in the UK and overseas. Such contingencies can
profile and profitability of such produc

Adverse experience in the operational risks inherent in Lloyds TSB Group s businesses could have a negati
results

Operational risks are present in Lloyds TSB Group s businesses, including the risk of loss resulting from ina
internal and external processes, documentation, people and systems or from external events. Lloyds TSB Group
dependent on their ability to process accurately and efficiently a high volume of complex transactions across
diverse products and services, in different currencies and subject to a number of different legal and regulatory r
TSB Group s systems and processes are designed to ensure that the operational risks associated with
appropriately controlled, but Lloyds TSB Group realises that any weakness in these systems could have a negati
results of operations during the affected period. See Operating and financial review and prospects Risk manag
risk and Operating and financial review and prospects Risk management Lega

Terrorist acts and other acts of war could have a negative impact on the business and results of operations

Terrorist acts, and other acts of war or hostility and responses to those acts, may create economic and politic
which could have a negative impact on UK and international economic conditions generally, and more spe
business and results of operations of Lloyds TSB Group in ways that cann

Lloyds TSB Group s businesses are subject to substantial regulation, regulatory and governmental oversight. A
adverse regulatory developments or changes in government policy could have a negative impact on Lloyds
results

Lloyds TSB Group conducts its businesses subject to ongoing regulation and associated regulatory risks, includin
changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other
it operates. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of Lloy
For additional information, s

Lloyds TSB Group is exposed to various forms of legal risk including the risk of misselling financial prod breach of legal or regulatory principles or requirements and giving negligent advice, any of which could h impact on its results or its relations with

Some of these issues involve the possibility of alleged misselling of pension and other life assurance policies, sa products. There is a risk that further provisions may be required as a result of these issues. See Operating and and prospects Risk management Customer treatment risk Customer rem

Certain aspects of the Lloyds TSB Group s business may be determined by the authorities or the courts as not be accordance with relevant laws. Obligations under contracts may not be enforced as anticipated or may be enforc detrimental to the Lloyds TSB Group or the Lloyds TSB Group could be liable in damages to others for the conduc

Lloyds TSB Group s businesses are conducted in highly competitive environments. Creation of an appropr shareholders depends upon management s ability to respond effectively to compet

The market for UK financial services and the other markets within which Lloyds TSB Group operates are high and management expects such competition to intensify in response to consumer demand, technological change consolidation, regulatory actions and other factors, which could result in a reduction in profit margins. Lloy ability to generate an appropriate return for its shareholders depends significantly upon the competitive en management s response to it. See Business Compe

Lloyds TSB Group is devoting considerable time and resources to securing new customers and developing from existing customers. If Lloyds TSB Group is unsuccessful, its organic growth prospec

Lloyds TSB Group seeks to achieve further organic growth by securing new customers and developing more existing customers. Lloyds TSB Group is currently expending significant resources and effort to bring abo particularly with respect to its UK retail financial services business. If these expenditures and efforts do not mee its operating results would grow more slo

Lloyds TSB Group s businesses are conducted in a marketplace that is consolidating and significant cross-b and acquisitions may happen in the coming years. Lloyds TSB Group s ability to generate an appropriat shareholders over the long term may depend upon whether management is able or permitted by either regulato shareholders to achieve value-creating mergers and/or acquisitions at the appropriate tin

In addition to its important strategy of organic growth, one of Lloyds TSB Group s aims is to remain alert for participate in the further consolidation of the financial services industry, both in the UK and overseas. Manageme under current conditions Lloyds TSB Group may find it difficult to make a significant acquisition in the UK in an where it already has a significant market share. Lloyds TSB Group s ability to generate an appropriate return for over the long term may depend upon whether management is able to achieve value-creating mergers and/or acq appropriate times and prices. Lloyds TSB Group cannot be sure that it will ultimately be able to make any s

FORWARD LOOKING ST

This annual report includes certain forward-looking statements with respect to the business, strategy and plans
Group and its current goals and expectations relating to its future financial condition and performance. Stateme
historical facts, including statements about Lloyds TSB Group s or management s beliefs and expectations, ar
statements. Words such as believes , anticipates , estimates , expects , intends , aims , poten
estimate and variations of these words and similar expressions are intended to identify forward-looking stateme
exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and unce
they relate to events and depend upon circumstances that will occu

Examples of such forward-looking statements include, but are

- projections or expectations of profit attributable to shareholders, provisions, economic profit, dividends, ca or any other financial items or ratios;
- statements of plans, objectives or goals of Lloyds TSB Group or its management;
- statements about the future trends in interest rates, stock market levels and demographic trends and any imp TSB Group;
- statements concerning any future UK or other economic environment or performance, including in particula statements included in this annual report in Operating and Financial Review and Prospects ;
- statements about strategic goals, competition, regulation, dispositions and consolidation or technological de the financial services industry; and
- statements of assumptions underlying such statements.

Factors that could cause actual results to differ materially from the plans, objectives, expectations, estimates
expressed in such forward-looking statements made by Lloyds TSB Group or on Lloyds TSB Group s behalf inc

- general economic conditions in the UK and internationally;
- inflation, interest rate, exchange rate, market and monetary fluctuations;
- changing demographic developments, adverse weather and similar contingencies outside the Lloyds TSB G
- inadequate or failed internal or external processes, people and systems;
- terrorist acts and other acts of war or hostility and responses to those acts;
- changes in laws, regulations or taxation;
- changes in competition and pricing environments;
- the ability to secure new customers and develop more business from existing customers;
- the ability to achieve value-creating mergers and/or acquisitions at the appropriate time and prices; and
- the success of the Lloyds TSB Group in managing the risks of the foregoing.

Lloyds TSB Group plc may also make or disclose written and/or oral forward-looking statements in repor
furnished to the US Securities and Exchange Commission, Lloyds TSB Group plc s annual report and accounts
proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statemer
directors, officers or employees of Lloyds TSB Group plc to third parties, including financial analysts. The fo
statements contained in this annual report are made as of the date hereof, and Lloyds TSB Group undertakes n
update any of its forward-look

LLOYDS TSB GROUP S

The following is a list of the principal subsidiaries of Lloyds TSB Group plc at 31 December 2004. The audite
accounts of Lloyds TSB Group plc for the year ended 31 December 2004 include the audited accounts o

Name of subsidiary undertakings	Country of registration/ Incorporation	Percentage of equity share capital and voting rights held	Nature of business	Registered offi
Lloyds TSB Bank plc	England	100%	Banking and financial services	25 Gresham St London EC2V
Cheltenham & Gloucester plc	England	100%*	Mortgage lending and retail investments	Barnett Way Gloucester GL
Lloyds TSB Commercial Finance Limited	England	100%*	Credit factoring	Beaumont Hou Beaumont Roa Oxfordshire O
Lloyds TSB Leasing Limited	England	100%*	Financial leasing	25 Gresham St London EC2V
Lloyds TSB Private Banking Limited	England	100%*	Private banking	25 Gresham St London EC2V
The Agricultural Mortgage Corporation PLC	England	100%*	Long-term agricultural finance	Charlton Place Charlton Road Andover Hampshire SP1
Lloyds TSB Bank Offshore Limited	Jersey	100%*	Banking and financial services	25 New Street St Helier Jersey JE4 8R
Lloyds TSB Scotland plc	Scotland	100%*	Banking and financial services	Henry Duncan 120 George Str Edinburgh EH
Lloyds TSB General Insurance Limited	England	100%*	General insurance	25 Gresham St London EC2V
Scottish Widows Investment Partnership Group Limited	England	100%*	Investment management	10 Fleet Place London EC4M
Lloyds TSB Insurance Services Limited	England	100%*	Insurance broking	25 Gresham St London EC2V
Lloyds TSB Asset Finance Division Limited	England	100%*	Consumer credit, leasing and related services	25 Gresham St London EC2V
Black Horse Limited	England	100%*	Consumer credit, leasing and related services	25 Gresham St London EC2V
Scottish Widows plc	Scotland	100%*	Life assurance	69 Morrison St Edinburgh EH
Scottish Widows Annuities	Scotland	100%*	Life assurance	69 Morrison St

Limited Edinburgh EH3

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Report of the independent Registered Public Accounting Firm
Consolidated profit and loss account for the year ended 31 December 2004
Consolidated balance sheet at 31 December 2004
Other statements
Statement of total recognised gains and losses for the year ended 31 December 2004
Reconciliation of movements in shareholders funds for the year ended 31 December 2004
Consolidated cash flow statement for the year ended 31 December 2004
Notes to the accounts

Report of the independent Registered Public Accou

To the Shareholders of Lloyds T

We have audited the accompanying consolidated balance sheets of Lloyds TSB Group plc and its subsidiaries as o
2004 and 31 December 2003, and the related consolidated profit and loss account, consolidated statement of t
gains and losses, reconciliation of movements in shareholders funds and consolidated cash flow statement for
years in the period ended 31 December 2004 which, as described in Note 1, have been prepared on the basi
principles generally accepted in the United Kingdom. These financial statements are the responsibility of the
Lloyds TSB Group plc. Our responsibility is to express an opinion on these financial statements base

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (
Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the finan
are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts
in the financial statements. An audit also includes assessing the accounting principles used and significant esti
management, as well as evaluating the overall financial statement presentation. We believe that our audits provi
basis f

In our opinion, the consolidated financial statements referred to above present fairly, in all material respect
position of Lloyds TSB Group plc and its subsidiary undertakings at 31 December 2004 and 31 December 2003,
of their operations and their cash flows, for each of the three years in the period ended 31 December 2004 in c
accounting principles generally accepted in the Ur

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accour
generally accepted in the United States. The application of the latter would have affected the determination of c
income for each of the three years in the period ended 31 December 2004 and the determination of consolidate
equity at 31 December 2004 and 2003 to the extent summarised in Note 50 to the consolidated finan

Pricewaterhous

Southan

3 March 2005, except for Note 50, as to which the date is

Consolidated profit and l

for the year ended 31 D

	Note	**2004**	Continuing operations 2003	Discontinued operations 2003*	Total 2003
		£ million	£ million	£ million	£ million
Interest receivable:					
Interest receivable and similar income arising from debt securities		**423**	389	63	452
Other interest receivable and similar income		**9,972**	8,484	1,213	9,697
Interest payable		**5,475**	4,129	765	4,894
Net interest income		**4,920**	4,744	511	5,255
Other finance income	45	**39**	34		34
Other income					
Fees and commissions receivable		**3,124**	2,987	112	3,099
Fees and commissions payable		**(744)**	(688)	(34)	(722)
Dealing profits (before expenses)	3	**271**	525	35	560
Income from long-term assurance business	29	**715**	436	17	453
General insurance premium income		**554**	535		535
Other operating income		**688**	682	12	694
		4,608	4,477	142	4,619
Total income		**9,567**	9,255	653	9,908
Operating expenses					
Administrative expenses	4	**4,284**	4,229	247	4,476
Depreciation and amortisation	23,24	**633**	672	25	697
Total operating expenses		**4,917**	4,901	272	5,173
Trading surplus		**4,650**	4,354	381	4,735
General insurance claims		**224**	236		236
Provisions for bad and doubtful debts	15				
Specific		**953**	883	63	946
General		**(87)**	4		4
		866	887	63	950
Amounts written off fixed asset investments	5	**52**	44		44
Operating profit		**3,508**	3,187	318	3,505
Share of results of joint ventures	20		(22)		(22)
(Loss) profit on sale of businesses	6	**(15)**		865	865
Profit on ordinary activities before tax	8	**3,493**	3,165	1,183	4,348
Tax on profit on ordinary activities	9	**1,004**			1,025
Profit on ordinary activities after tax		**2,489**			3,323
Minority interests:					
Equity		**26**			22
Non-equity	39	**42**			47
		2,421			3,254

Profit for the year attributable to shareholders			
Dividends	10	**1,914**	1,911
Profit (loss) for the year	41	**507**	1,343
Earnings per share	11	**43.3p**	58.3p
Diluted earnings per share	11	**43.0p**	58.1p

An analysis of the results for the year ended 31 December 2002 between continuing and discontinued operations

The accompanying notes are an integral part of the financ

Consolidated ba

at 31 D

	Note	**2004**	2003
		£ million	£ million
Assets			
Cash and balances at central banks		**1,078**	1,195
Items in course of collection from banks		**1,462**	1,447
Treasury bills and other eligible bills	12	**92**	539
Loans and advances to banks	13	**23,565**	15,547
Loans and advances to customers	14	**154,240**	135,251
Debt securities	17	**25,194**	28,669
Equity shares	18	**215**	458
Interests in joint ventures:	20		
Share of gross assets		**84**	85
Share of gross liabilities		**(31)**	(31)
		53	54
Intangible fixed assets	23	**2,425**	2,513
Tangible fixed assets	24	**4,181**	3,918
Other assets	27	**3,220**	3,944
Prepayments and accrued income	28	**2,573**	1,918
Long-term assurance business attributable to the shareholder	29	**6,781**	6,481
		225,079	201,934
Long-term assurance assets attributable to policyholders	29	**54,764**	50,078
Total assets		**279,843**	252,012

The accompanying notes are an integral part of the financ

Consolidated ba

at 31 D

	Note	**2004** £ million	**2003** £ million
Liabilities			
Deposits by banks	31	**39,738**	23,955
Customer accounts	32	**122,062**	116,496
Items in course of transmission to banks		**631**	626
Debt securities in issue	33	**27,217**	25,922
Other liabilities	34	**6,619**	7,007
Accruals and deferred income	35	**3,866**	3,206
Post-retirement benefit liability	45	**2,231**	2,139
Provisions for liabilities and charges:			
Deferred tax	36	**1,473**	1,376
Other provisions for liabilities and charges	37	**417**	402
Subordinated liabilities:			
Undated loan capital	38	**5,852**	5,959
Dated loan capital	38	**4,400**	4,495
		10,252	10,454
Minority interests:			
Equity		**46**	44
Non-equity	39	**550**	683
		596	727
Called-up share capital	40	**1,419**	1,418
Share premium account	41	**1,145**	1,136
Merger reserve	41	**343**	343
Profit and loss account	41	**7,070**	6,727
Shareholders funds (equity and non-equity)	42	**9,977**	9,624
		225,079	201,934
Long-term assurance liabilities to policyholders	29	**54,764**	50,078
Total liabilities		**279,843**	252,012
Memorandum items	46		
Contingent liabilities:			
Acceptances and endorsements		**71**	299
Guarantees and assets pledged as collateral security		**6,786**	6,122
Other contingent liabilities		**1,669**	2,604
		8,526	9,025
Commitments		**85,290**	79,335

The accompanying notes are an integral part of the financ

Other

Statement of total recognised ga

for the year ended 31 D

	Note	**2004**	2003
		£ million	£ million
Profit attributable to shareholders		**2,421**	3,254
Currency translation differences on foreign currency net investments		**(11)**	118
Actuarial losses recognised in post-retirement benefit schemes		**(237)**	(6)
Deferred tax thereon		**71**	2
	45	**(166)**	(4)
Total recognised gains and losses relating to the year		**2,244**	3,368
Prior year adjustments in respect of changes in accounting policy in earlier years			(29)
Total gains and losses recognised during the year		**2,244**	3,339

Historical cost pro

for the year ended 31 D

There was no material difference between the results as reported and the results that would have been reported on a historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

Reconciliation of movements in consolidated share

for the year ended 31 D

	Note	**2004**	2003	2002
		£ million	£ million	£ mil
Profit attributable to shareholders		**2,421**	3,254	1,790
Dividends		**(1,914)**	(1,911)	(1,90
Profit for the year		**507**	1,343	(118)
Currency translation differences on foreign currency net investments		**(11)**	118	(3)
Actuarial losses recognised in post-retirement benefit schemes	45	**(166)**	(4)	(2,33
Issue of shares	40,41	**10**	45	139
Movements in relation to own shares	43	**10**	(2)	(70)
Goodwill written back on sale of businesses	6	**3**	181	
Net increase in shareholders funds		**353**	1,681	(2,38
Shareholders funds at beginning of year		**9,624**	7,943	10,32
Shareholders funds at end of year		**9,977**	9,624	7,943

The accompanying notes are an integral part of the financ

Consolidated cash flo

for the year ended 31 D

	Note	**2004** **£ million**	2003 £ million
Net cash inflow from operating activities	49a	**3,469**	772
Dividends received from joint ventures and associated undertakings		**2**	5
Returns on investments and servicing of finance:			
Dividends paid to equity minority interests	49d	**(24)**	(14)
Payments made to non-equity minority interests	49d	**(44)**	(81)
Interest paid on subordinated liabilities (loan capital)		**(606)**	(600)
Net cash outflow from returns on investments and servicing of finance		**(674)**	(695)
Taxation:			
UK corporation tax		**(656)**	(598)
Overseas tax		**(107)**	(186)
Total taxation		**(763)**	(784)
Capital expenditure and financial investment:			
Additions to fixed asset investments		**(10,088)**	(35,420)
Disposals and maturities of fixed asset investments		**9,732**	36,281
Additions to tangible fixed assets		**(1,183)**	(778)
Disposals of tangible fixed assets		**243**	287
Capital injections to long-term assurance business			
Net cash (outflow) inflow from capital expenditure and financial investment		**(1,296)**	370
Acquisitions and disposals:			
Additions to interests in joint ventures			(12)
Acquisition of group undertakings and businesses	49e	**(16)**	(1,106)
Disposal of group undertakings and businesses	49g	**(25)**	2,382
Net cash (outflow) inflow from acquisitions and disposals		**(41)**	1,264
Equity dividends paid		**(1,913)**	(1,908)
Net cash outflow before financing		**(1,216)**	(976)
Financing:			
Issue of subordinated liabilities (loan capital)	49d	**699**	533
Cash proceeds from issue of ordinary share capital and transactions in own shares held in respect of employee share schemes		**11**	32
Repayments of subordinated liabilities (loan capital)	49d	**(764)**	(75)
Minority investment in subsidiaries	49d		
Repayment of minority investment in subsidiaries	49d	**(132)**	
Capital element of finance lease rental payments	49d	**(1)**	(1)
Net cash (outflow) inflow from financing		**(187)**	489
(Decrease) increase in cash	49c	**(1,403)**	(487)

The accompanying notes are an integral part of the financ

Notes t

1 Accou

Accounting policies are unchan

In December 2004, the Accounting Standards Board (ASB) issued Financial Reporting Standard 27 Life As will implement the requirements of this standard in its 2005 accounts; however, in accordance with the M Understanding entered into by leading members of the life assurance and bancassurance sectors and the Associ Insurers with the ASB, certain additional disclosures have been given in Operating and financial review and pros

a Accounti

The consolidated accounts are prepared under the historical cost convention as modified by the revaluation of deb equity shares held for dealing purposes (see g) and assets held in the long-term assurance business (see o); in co Section 255A, Schedule 9 and other requirements of the Companies Act 1985 except as described below (see c) with applicable accounting standards, pronouncements of the Urgent Issues Task Force and with the Recommended Practice issued by the British Bankers Association and the Finance & Leasing Associat methodology for calculating embedded value follows the guidance published by the Association of British preparation of figures using the achieved profits method of accounting except that tangible assets attributable to are valued at market value. The guidance would require those assets backing capital requirements to be discounte cost of encumbered capital, but such a treatment would be inconsistent with the treatment of capital support bank

The Group continues to take advantage of the dispensation in the Urgent Issues Task Force s Abstract 17 Schemes not to apply that Abstract to the Group s Inland Revenue approve

b Basis of

Assets, liabilities and results of group undertakings and joint ventures are included in the consolidated accounts accounts made up to 31 December. Entities that do not meet the legal definition of a subsidiary but which give that are in substance no different to those that would arise from subsidiaries are also included in the consolidat order to reflect the different nature of the shareholder s and policyholders interests in the long-term assurance b of long-term assurance business attributable to the shareholder and the assets and liabilities attributable to po classified under separate headings in the consolidated balance sheet. Details of transactions entered into by the G not eliminated on consolidation are gi

Goodwill arising on acquisitions of or by group undertakings is capitalised. For acquisitions prior to 1 January was taken direct to reserves in the year of acquisition. As permitted by the transitional arrangements of Finan Standard 10, Goodwill and Intangible Assets , this goodwill was not reinstated when the Group adopted the

The useful economic life of the goodwill arising on each acquisition is determined at the time of the acquisition consider that it is appropriate to assign an indefinite life to the goodwill which arose on the acquisition of Sc during 2000 in view of the strength of the Scottish Widows brand, developed through over 185 years of trading, a of the business as one of the leading providers of life, pensions, unit trust and fund management products attributes are deemed to have indefinite durability, which has been determined based on the following factors: th business; the typical life spans of the products; the extent to which the acquisition overcomes market entry b expected future impact of competition o

As a result, the Scottish Widows goodwill is not being amortised through the profit and loss account; however, it annual impairment reviews in accordance with Financial Reporting Standard 11, Impairment of Fixed Asse Impairment of the goodwill is evaluated by comparing the present value of the expected future cash flows, exclu and tax, (the value-in-use) to the carrying value of the underlying net assets and goodwill. If the net assets and exceed the value-in-use, an impairment would be deemed to have occurred and the resulting write-down in the g be charged to the profit and loss accoun

Paragraph 28 of Schedule 9 to the Companies Act 1985 requires that all goodwill carried on the balance s
amortised. In the case of the goodwill arising on the acquisition of Scottish Widows, the directors consider that i
to depart from this requirement in order to comply with the over-riding requirement for the accounts to show a true
If this goodwill was amortised over a period of 20 years, profit before tax for the year ended 31 December
£92 million lower (2003: £93 million lower; 2002: £93 million lower), with a corresponding reduction
£450 million (2003: £358 million); intangible assets on the balance sheet would also be £450 million lower (200

Goodwill arising on all other acquisitions after 1 January 1998 is amortised on a straight line basis over its e
economic life, which does not ex

---

1 Accounting polic

At the date of the disposal of group or associated undertakings, any unamortised goodwill, or goodwill taken dire
prior to 1 January 1998, is included in the Group s share of the net assets of the undertaking in the calculation of

d Incor

Interest income is recognised in the profit and loss account as it accrues, with the exception of interest on r
lending which is taken to income either when it is received or when there ceases to be any significant doubt ab

Fees and commissions receivable from customers to reimburse the Group for costs incurred are taken to income v
and commissions relating to the ongoing provision of a service or risk borne for a customer are taken to income i
the service provided or risk borne in each accounting period. Fees and commissions charged in lieu of inter
income on a level yield basis over the period of the loan. Other fees and commissions receivable are accounted

e Provisions for bad and doubtful debts and non-perfo

Provisions for bad and d

It is the Group s policy to make provisions for bad and doubtful debts, by way of a charge to the profit and loss ac
the losses inherent in the loan portfolio at the balance sheet date. There are two types of provision, specific and ger
are discussed

Spec

Specific provisions relate to identified risk advances and are raised when the Group considers that recovery of th
outstanding balance is in serious doubt. The amount of the provision is equivalent to the amount necessary to redu
value of the advance to its expected ultimate net r

For the Group s portfolios of smaller balance homogeneous loans, such as the residential mortgage, personal le
card portfolios, specific provisions are calculated using a formulae driven approach. These formulae take into
such as the length of time that payments from the customer are overdue, the value of any collateral held and the le
expected losses, in order to derive an approp

For the Group s other lending portfolios, specific provisions are calculated on a case-by-case basis. In establishin
provision, factors such as the financial condition of the customer, the nature and value of any collateral hel
associated with obtaining repayment and realisation of the collateral are taken into

Gene

General provisions are raised to cover latent bad and doubtful debts which are present in any portfolio of advanc
been specifically identified. The Group has general provisions, held against each of its principal lending portfo
calculated after having regard to a number of factors; in particular, the level of watchlist or potential problem deb
propensity for such debt to deteriorate and become impaired and prior period loss rates. The level of general pr
reviewed on a regular basis to ensure that it remains appropriate in the context of the perceived risk inherer
portfolio and the prevailing eco

Non-perfo

An advance becomes classified as non-performing when interest ceases to be credited to the profit and loss acc
two types of non-performing lending which are discussed

Accruing loans on which interest is being plac

Where the customer continues to operate the account, but there is doubt about the payment of interest, interest charged to the customer s account, but it is not applied to income. Interest is placed on a suspense account a income if there ceases to be doubt about

Loans accounted for on a nor

In those cases where the operation of the customer s account has ceased and it has been transferred to a sp department, the advance is written down to its expected net realisable value and interest is no longer charged to account as the likelihood of its recovery is considered remote. Interest is only taken to income i

f Mortg

Payments made under cash gift and discount mortgage schemes, which are recoverable from the customer in the redemption, are amortised as an adjustment to net interest income over the early redemption charge period. Payme deferred and are charged to the profit and loss account in the event that the related loan is redeemed or bec

1 Accounting polic

g Debt securities and

Debt securities, apart from those held for dealing purposes and in the long-term assurance business (see n), are s
adjusted for the amortisation of any premiums and discounts arising on acquisition, which are amortised fr
maturity in equal annual instalments, less amounts written off for any permanent diminution in their value. Equi
from those held for dealing purposes and in the long-term assurance business (see n), are stated at cost less amou
for any permanent diminutio

Debt securities and equity shares held for dealing purposes are included at market value. In circumstances whe
transferred between the dealing and investment portfolios, the transfer is effected at an amount based on the mar
date of transfer. Any resulting profit or loss is reflected in the profit an

h Tangib

Tangible fixed assets are included at cost les

Land is not depreciated. Leasehold premises with unexpired lease terms of 50 years or less are depreciated b
instalments over the remaining period of the lease. Freehold and long leasehold buildings are depreciated ove
costs of adapting premises for the use of the Group are separately identified and depreciated over 10 years, or o
the lease if less; such costs are included within premises in the balance sheet total of tangib

Equipment is depreciated by equal annual instalments over the estimated useful lives of the assets, which f
furnishings are 10-20 years and for computer hardware, operating software and application software and the relate
costs relating to separable new systems, motor vehicles and other equipmen

Premises and equipment held for letting to customers under operating leases are depreciated over the life of the
constant rate of return on the net cash investment, taking into account tax and anticipated residual values. Antic
values are reviewed regularly and any impairments identified are charged to the profit an

i Vacant lease

When a leasehold property ceases to be used in the business or a commitment is entered into which would caus
provision is made to the extent that the recoverable amount of the interest in the property is expected to be insuf
future obligations relati

j Leasing and instalment cred

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all
rewards of ownership to the lessee; all other leases are classified as o

Income from finance leases is credited to the profit and loss account in proportion to the net cash invested so as to
rate of return over each period after taking account of tax. Income from instalment credit transactions is credited t
loss account using the sum of the digits method. Rental income from operating leases is credited to the profit and l
an

In those cases where the Group is the lessee, operating lease costs are charged to the profit and loss account
instalments over the l

I

Full provision is made for deferred tax liabilities arising from timing differences between the recognition of gai
the financial statements and their recognition in a tax computation. Deferred tax assets are recognised to the
regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the und
differences can be deducted, or where they can be offset against deferred tax liabilities. Deferred tax is measure
tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based o
laws that have been enacted or substantively enacted by the bala

l Pensions and other post-retire

The Group operates both defined benefit and defined contribution post-retirement be

Full actuarial valuations of the Group s principal defined benefit schemes are carried out every three years with in
the intervening years; these valuations are updated to 31 December each year by qualified independent actuaries, o
the Scottish Widows Retirement Benefits Scheme, by a qualified actuary employed by Scottish Widows. For t
these annual updates, scheme assets are included at market value and scheme liabilities are measured on an actua
the projected unit method; these liabilities are discounted at the current rate of return on an AA corporate bon
currency and term. The post-retirement benefit surplus or deficit is included on the Group s balance sheet, n
amount of deferred tax. Surpluses are included only to the extent that they are recoverable through reduced cont
future or through refunds fron

1 Accounting polic

The current service cost and any past service costs are included in the profit and loss account within operating ex
expected return on the schemes assets, after deducting the impact of the unwinding of the discount on sch
included within other finance income. Actuarial gains and losses, including differences between the expected a
on scheme assets, are recognised, net of the related deferred tax, in the statement of total recognised g

The costs of the Group s defined contribution pension schemes are charged to the profit and loss account in the

m Foreign curren

Assets, liabilities and results in foreign currencies are expressed in sterling at the rates of exchange ruling on
respective balance sheets. Exchange adjustments on the translation of opening net assets held overseas are
reserves. All foreign exchange gains and losses, which arise from normal trading activities, are included in the

n Long-term assur

The Group accounts for its interest in long-term assurance business using the embedded value basis of accountin
the shareholder s interest in the long-term assurance business (the embedded value) included in the Group
actuarially determined estimate of the economic value of the Group s life assurance subsidiaries, excluding any
be attributed to future new business. The embedded value is comprised of the net tangible assets of th
subsidiaries, including any surplus retained within the long-term business funds, which could be transferred to t
and the present value of the in-force business. The present value of the in-force business is calculated by proje
surpluses and other net cash flows attributable to the shareholder arising from business written by the balance s
appropriate economic and actuarial assumptions, and discounting the result at a rate which reflects the sharehol
premium attributable t

Surpluses arise following annual actuarial valuations of the long-term business funds, which are carried out in a
the statutory requirements designed to ensure and demonstrate the solvency of the funds. Future surpluses w
experience in a number of areas such as investment returns, lapse rates, mortality and administrative expenses. S
projected by making realistic assumptions about future experience, having regard to both actual experie
long-term economic trends. Other net cash flows principally comprise annual management charges and other f
the policyholders by the life assuran

Changes in the embedded value, which are determined on a post-tax basis, are included in the profit and loss a
purpose of presentation, the change in this value is grossed up at the underlying rate of c

The assets held within the long-term business funds of the Group s life assurance operations are legally own
however the shareholder will only benefit from ownership of these assets to the extent that surpluses are declare
cash flows attributable to the shareholder. Reflecting the different nature of these assets, they are classified se
Group s balance sheet as Long-term assurance assets attributable to policyholders , with a correspo
policyholders also shown. Investments held within the long-term business funds are included on the followi
shares, debt securities and unit trusts held for unit-linked funds are valued in accordance with policy conditions a
other equity shares and debt securities are valued at middle market price and other unit trusts at bid price; invest
are included at valuation by independent valuers at existing use value at the balance sheet date, and mortgages
cost less amou

o General insur

The Group both underwrites and acts as intermediary in the sale of general insurance products. Underwritin
included, net of refunds, in the period in which insurance cover is provided to the customer; premiums received r
periods are deferred and only credited to the profit and loss account when earned. Where the Group acts a
commission income is included in the profit and loss account at the time that the underwriter accepts the ri
insurance cover to the customer. Where appropriate, provision is made for the effect of future policy terminati
p

The underwriting business makes provision for the estimated cost of claims notified but not settled and claims i
reported at the balance sheet date. The provision for the cost of claims notified but not settled is based upon a best
cost of settling the outstanding claims after taking into account all known facts. In those cases where ther
information to determine the required provision, statistical techniques are used which take into account the cos
have recently been settled and make assumptions about the future development of the outstanding cases. Si
techniques are used to determine the provision for claims incurred but not reported at the balance sheet date. Clai
provisions are calculated in accordance with the relevant legislativ

1 Accounting polic

p Sale and repurchas

Securities which have been sold with an agreement to repurchase continue to be shown on the balance sh
proceeds recorded within deposits by banks or customer accounts as appropriate. Securities acquired in r
repurchase transactions are not recognised on the balance sheet and the purchase price is recorded within loans
The difference between the sale price and repurchase price is accrued evenly over the life of the transaction
credited to the profit and loss account as interest payabl

Derivatives are used in the Group s trading activities to meet the financial needs of customers, for proprietary
manage risk in the Group s trading portfolios. Such instruments include exchange rate forwards and futures, cur
options together with interest rate swaps, forward rate agreements, interest rate options and futures. These derivat
at fair value and all changes in fair value are reported within dealing profits in the profit and loss account.
normally determined by reference to quoted market prices; internal models are used to determine fair value in insta
market price is available. The unrealised gains and losses on trading derivatives are included within other a
liabilities respectively. These items are reported gross except in instances where the Group has entered into
netting agreements, where the Group has a right to insist on net settlement that would survive the insolvency of th
in these cases the positive and negative fair values of trading derivatives with the relevant counterparties are o
balan

Derivatives used in the Group s non-trading activities are taken out to reduce exposures to fluctuations in inter
rates and include exchange rate forwards and futures, currency swaps together with interest rate swaps, forward r
and options. These derivatives are accounted for in the same way as the underlying items which they are h
receipts and payments on hedging interest derivatives are included in the profit and loss account so as to m
payable or receivable on th

A derivative will only be classified as a hedge in circumstances where there was reasonable evidence of the intent
the outset of the transaction and the derivative substantially matches or eliminates a proportion of the risk asso
exposure

Where a hedge transaction is superseded, ceases to be effective or is terminated early the derivative is measur
Any profit or loss arising is then amortised to the profit and loss account over the remaining life of the ite
originally hedging. When the underlying asset, liability or position that was being hedged is terminated, the hedgi
measured at fair value and any profit or loss arising is recognise

2 Segm

The Group s activities are organised into three businesses: UK Retail Banking, Insurance and Investments an
International Banking. Services provided by UK Retail Banking encompass the provision of banking and other fin
private banking and mortgages to personal customers. Insurance and Investments offers life assurance, pensio
products, general insurance and fund management services. Wholesale and International Banking provides bank
services for major UK and multinational companies, banks and financial institutions, and small and me
businesses. It also provides asset finance to personal and corporate customers, manages the Group s activities in f
through its Treasury function and provides banking and financial ser

	UK Retail Banking	General insurance	Life, pensions, unit trusts and asset management	Insurance and Investments	Wholesale and International Banking	Central group items	Continuing operations	Disco operat
Year ended 31 December 2004	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	**3,198**	**44**	**55**	**99**	**1,966**	**(343)**	**4,920**	
Other finance income						**39**	**39**	
Other operating income	**1,639**	**497**	**818**	**1,315**	**1,641**	**13**	**4,608**	
Total income	**4,837**	**541**	**873**	**1,414**	**3,607**	**(291)**	**9,567**	
Operating expenses	**(2,513)**	**(149)**	**(123)**	**(272)**	**(2,090)**	**(42)**	**(4,917)**	
Trading surplus (deficit)	**2,324**	**392**	**750**	**1,142**	**1,517**	**(333)**	**4,650**	
General insurance claims		**(224)**		**(224)**			**(224)**	
Provisions for bad and doubtful debts	**(673)**				**(193)**		**(866)**	
Amounts written off fixed asset investments					**(52)**		**(52)**	
Loss on sale of businesses					**(15)**		**(15)**	
Profit (loss) before tax	**1,651**	**168**	**750**	**918**	**1,257**	**(333)**	**3,493**	
Year ended 31 December 2003*								
Net interest income	3,137	38	43	81	1,875	(349)	4,744	511
Other finance income						34	34	
Other operating income	1,533	505	579	1,084	1,561	299	4,477	142
Total income	4,670	543	622	1,165	3,436	(16)	9,255	653
Operating expenses	(2,583)	(141)	(120)	(261)	(2,048)	(9)	(4,901)	(272)
Trading surplus (deficit)	2,087	402	502	904	1,388	(25)	4,354	381
General insurance claims		(236)		(236)			(236)	
Provisions for bad and doubtful debts	(594)				(306)	13	(887)	(63)
Amounts written off fixed asset investments					(44)		(44)	
Share of results of joint ventures	(22)						(22)	
Profit on sale of businesses								865
Profit (loss) before tax	1,471	166	502	668	1,038	(12)	3,165	1,183
Year ended 31 December 2002*								
Net interest income	2,890	38	36	74	1,970	(251)	4,683	488
Other finance income						165	165	
Other operating income	1,567	353	(157)	196	1,520	149	3,432	119
Total income	4,457	391	(121)	270	3,490	63	8,280	607
Operating expenses	(2,402)	(105)	(186)	(291)	(1,939)	(4)	(4,636)	(277)
Trading surplus	2,055	286	(307)	(21)	1,551	59	3,644	330
General insurance claims		(229)		(229)			(229)	

Provisions for bad and doubtful debts	(496)				(489)	7	(978)	(51)
Amounts written off fixed asset investments					(57)	(30)	(87)	
Share of results of joint ventures	(11)						(11)	
Profit (loss) before tax	1,548	57	(307)	(250)	1,005	36	2,339	279

2 Segmental analy

Geographical area:**	**Domestic 2004 £m**	**International 2004 £m**	**Total 2004 £m**	Domestic 2003 £m	International 2003 £m	Continuing operations 2003 £m	Discontin operations 2003 £m
Interest receivable	**9,992**	**403**	**10,395**	8,490	383	8,873	1,276
Other finance income	**39**		**39**	34		34	
Fees and commissions receivable	**2,980**	**144**	**3,124**	2,831	156	2,987	112
Dealing profits (before expenses)	**249**	**22**	**271**	276	249	525	35
Income from long-term assurance business	**715**		**715**	436		436	17
General insurance premium income	**554**		**554**	535		535	
Other operating income	**682**	**6**	**688**	677	5	682	12
Total gross income	**15,211**	**575**	**15,786**	13,279	793	14,072	1,452
Profit on ordinary activities before tax	**3,295**	**198**	**3,493**	2,810	355	3,165	1,183

Geographical area**	Domestic 2002 £m	International 2002 £m	Continuing operations 2002 £m	Discont operatio 2002 £m
Interest receivable	8,226	582	8,808	1,741
Other finance income	165		165	
Fees and commissions receivable	2,773	169	2,942	111
Dealing profits (before expenses)	125	39	164	24
Income from long-term assurance business	(305)		(305)	11
General insurance premium income	486		486	
Other operating income	552	207	759	4
Total gross income	12,022	997	13,019	1,891
Profit on ordinary activities before tax	2,122	217	2,339	279

	Net Assets 2004 £m	Net Assets 2003 £m	**Assets 2004 £m**
Class of business			
UK Retail Banking	**2,991**	2,555	**101,615**
Insurance and Investments:			
General insurance	**427**	470	**1,084**
Life, pensions, unit trusts and asset management	**6,908**	6,531	**9,141**
	7,335	7,001	**10,225**
Wholesale and International Banking	**4,469**	4,390	**112,968**
Central group items	**(4,772)**	(4,278)	**271**
	10,023	9,668	**225,079**
Geographical area**			
Domestic	**9,369**	9,069	**212,197**
International	**654**	599	**12,882**

10,023	9,668	**225,079**

* From the beginning of 2004 the Group changed its UK branch and other distribution networks from cost centres to profit consequently, amended the internal commission arrangements between these networks and the insurance product manufa businesses within the Group. The effect of this change has been to redistribute income from the insurance segments to UK and, to a lesser extent, to Wholesale. In addition, certain costs previously included in Central group items were reallocate operating segments. The 2002 and 2003 segmental analyses have been restated to reflect these changes on a consistent ba

** The geographical distribution of gross income sources, profit on ordinary activities before tax and assets by domestic and operations is based on the location of the office recording the transaction, except for lending by the international business London.

Net assets represent shareholders funds plus equity minority interests. Disclosure of information on net assets is an acco requirement (SSAP 25); it is not appropriate to relate it directly to the segmental profits above because the business is not allocation of net assets to business units.

Assets exclude long-term assurance assets attributable to policyholders.

§ Discontinued operations related entirely to the international operations of the Wholesale and International Banking segm

As the business of the Group is mainly that of banking and insurance, no segmental analysis of t

3 Dealing profits (be

	2004	2003	2002
	£m	£m	£m
Foreign exchange trading income	**178**	228	173
Securities and other gains	**93**	332	15
	271	560	188

Dealing profits include the profits and losses arising both on the purchase and sale of trading instruments and fro revaluation to market value, together with the interest income earned from these instruments and the relate

4 Administr

	2004	2003	2002
	£m	£m	£m
Salaries	**2,069**	2,092	2,065
Social security costs	**140**	143	134
Other pension costs (note 45)	**338**	353	318
Staff costs	**2,547**	2,588	2,517
Other administrative expenses	**1,737**	1,888	1,695
	4,284	4,476	4,212
The average number of persons on a headcount basis employed by the Group during the year was as follows:			
UK	**74,924**	73,814	71,134
Overseas	**3,372**	10,288	11,491
	78,296	84,102	82,625

The above staff numbers exclude 4,657 (2003: 5,202; 2002: 5,870) staff employed in the long-term assurance bus £190 million (2003: £194 million; 2002: £209 million) in relation to those staff are reflected in the valuation o assu

Details of directors emoluments, pensions and interests are given o

	2004	2003	2002
	£m	£m	£m
Statutory audit	**5.2**	5.5	4.8
Other audit related fees:			
Audit related regulatory reporting	**0.9**	0.9	0.9
Further assurance services	**6.4**	3.3	1.7
Total other audit related fees	**7.3**	4.2	2.6
Audit and audit related fees	**12.5**	9.7	7.4
Tax advisory	**0.8**	1.6	0.7
Other non-audit fees:			
Due diligence services	**0.9**	0.7	0.8
Management consultancy			0.1
Other	**0.3**	0.2	0.7
Total other non-audit fees	**1.2**	0.9	1.6
Total fees	**14.5**	12.2	9.7

During the year the auditors also earned fees of £0.6 million (2003: £0.6 million; 2002: £0.8 million) in respect unit trusts and pension schemes manage

Included in Other audit related fees are the costs of the advice provided in relation to the Group s
implementation of International Financial Reporting Standards and the requirements of the Sarbanes-Oxley Act to
costs of the audit of the Group s F

It is the Group s policy to use the auditors on assignments in cases where their knowledge of the Group means
efficient nor cost effective to employ another firm of accountants. Such assignments typically relate to the provisi
tax issues, assistance in transactions involving the acquisition and disposal of businesses and accounting advice. T
not permitted to provide management consultancy service

4 Administrative expen

The Group has procedures to ensure that fees for audit and non-audit services are approved in advance. The audit established de minimis fee limits for particular detailed types of service and has approved in advance all non-auc where the fee falls below the relevant limit. All statutory audit work as well as non-audit assignments where the to exceed the relevant limit are subject to individual pre-approval by the audit committee. On a quarterly committee receives a report detailing all pre-approved services and amounts paid to the auditors for such pre-app

5 Amounts written off fixed ass

	2004	2003	2002
	£m	£m	£m
Debt securities	**43**	42	84
Equity shares	**9**	2	3
	52	44	87

6 (Loss) profit before tax on sal

	2004	2003
	£m	£m
Profit on sale of businesses in Argentina (tax: £6 million)	**6**	
Loss on sale of businesses in Colombia (after charging £3 million of goodwill previously written off to reserves) (tax: nil)	**(20)**	
Loss on sale of businesses in Panama, Guatemala and Honduras (tax: £1 million)	**(1)**	
Loss on sale of French fund management and private banking businesses (tax: nil)		(15
Loss on sale of Brazilian businesses (after charging £161 million of goodwill previously written off to reserves) (tax: nil)		(41
Profit on sale of New Zealand operations (after charging £20 million of goodwill previously written off to reserves) (tax: nil)		921
	(15)	865

During 2004 the Group completed the sale, announced on 19 July 2004 and completed on 19 November 2004, of the branch of Lloyds TSB Bank plc in Argentina; the sale, announced on 19 July 2004 and completed on 30 Nov the Group s principal businesses in Colombia comprising its interests in Lloyds TSB Bank S.A. and in Lloyd certain offshore assets; and the sales, announced on 1 December 2003, of substantially all of the businesses of Lloyds TSB Bank plc in Panama, Guatemala and Honduras which were completed on 30 April 2004, 4 June 2004 200

During 2003 the Group completed the sales of its French fund management and private banking businesse subsidiaries Lloyds Bank SA, Chaillot Assurances SA and Capucines Investissements SA; its Brazilian subs Lloyds TSB S.A. and Losango Promotora de Vendas Ltda, together with substantially all of the business of the B of Lloyds TSB Bank plc and certain offshore Brazilian assets; and its subsidiary, NBNZ Holdings Limited, Group s New Zealand banking and insur

The trading results of the businesses sold in 2004 were not material to the Group. Discontinued operations in comprise the businesses in New Zealand, Brazil and Franc

7 Analysis of comparative profit and loss account for the year ended 31 D

The analysis of the profit and loss account for the year ended 31 December 2002 between continuing and discontin
is set out below. Discontinued operations comprise the operations in France, New Zealand and Brazil sold in 20
det

	Continuing Operations 2002 £m	Discontinued Operations 2002 £m	Total 2002 £m
Interest receivable:			
Interest receivable and similar income arising from debt securities	523	44	567
Other interest receivable and similar income	8,285	1,697	9,982
Interest payable	4,125	1,253	5,378
Net interest income	4,683	488	5,171
Other finance income	165		165
Other income:			
Fees and commissions receivable	2,942	111	3,053
Fees and commissions payable	(614)	(31)	(645)
Dealing profits (before expenses)	164	24	188
Income from long-term assurance business	(305)	11	(294)
General insurance premium income	486		486
Other operating income	759	4	763
	3,432	119	3,551
Total income	8,280	607	8,887
Operating expenses:			
Administrative expenses	3,973	239	4,212
Depreciation and amortisation	663	38	701
Total operating expenses	4,636	277	4,913
Trading surplus	3,644	330	3,974
General insurance claims	229		229
Provisions for bad and doubtful debts:			
Specific	914	51	965
General	64		64
	978	51	1,029
Amounts written off fixed asset investments	87		87
Operating profit	2,350	279	2,629
Share of results of joint ventures	(11)		(11)
Profit on ordinary activities before tax	2,339	279	2,618

8 Profit on ordinary activi

	2004 £m	2003 £m
Profit on ordinary activities before tax is stated after taking account of:		
Income from:		
Aggregate amounts receivable, including capital repayments, in respect of assets leased to customers and banks under:		
Finance leases and hire purchase contracts	**3,742**	3,495
Operating leases	**422**	446

Profits less losses on disposal of investment securities	**126**	47
Charges:		
Rental of premises	**212**	220
Hire of equipment	**17**	18
Interest on subordinated liabilities (loan capital)	**601**	622

9 Tax on profit on ordi

a Analysis of charg

	2004	2003
	£m	£m
UK corporation tax:		
Current tax on profits for the year	**841**	1,079
Adjustments in respect of prior years	**(38)**	(72)
	803	1,007
Double taxation relief	**(58)**	(223)
	745	784
Foreign tax:		
Current tax on profits for the year	**119**	144
Adjustments in respect of prior years	**(5)**	(15)
	114	129
Current tax charge	**859**	913
Deferred tax	**146**	119
Associated undertakings and joint ventures	**(1)**	(7)
	1,004	1,025

The charge for tax on the profit for the year is based on a UK corporation tax rate of 30 per cent (2003: 30 per cer

In addition to the tax charge in the profit and loss account detailed above, £71 million (2003: £2 million; 2002: £
deferred tax has been credited to the statement of total recognised gains and losses in respect of actuarial losse
post-retirement benefit sche

b Factors affecting the tax charg

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit b
current tax charge and total tax charge for the year

	2004	2003
	£m	£m
Profit on ordinary activities before tax	**3,493**	4,348
Tax charge thereon at UK corporation tax rate of 30%	**1,048**	1,304
Factors affecting charge:		
Goodwill amortisation	**9**	9
Overseas tax rate differences	**(14)**	(9)
Specifically allowable, unallowable and non-taxable items	**(5)**	(10)
Net tax effect of disposals	**(12)**	(276)
Tax deductible coupons on non-equity minority interests	**(12)**	(12)
Payments to employee trust		
Capital allowances in excess of depreciation	**(86)**	(105)
Other timing differences	**(60)**	(14)
Life companies rate differences	**(16)**	16
Other items	**7**	10

Current tax charge	**859**	913
Deferred tax:		
Capital allowances in excess of depreciation	**86**	105
Other timing differences	**60**	14
Associated undertakings and joint ventures	**(1)**	(7)
Tax on profit on ordinary activities	**1,004**	1,025
Effective rate	**28.7%**	23.6%

9 Tax on profit on ordinary activit

c Factors that may affect the futu

The current tax charge includes a charge of £199 million (2003: charge of £157 million; 2002: credit of £44 millio
notional tax on the shareholder s interest in the movement in value of the long-term assurance business (note
derives from the use of a combination of tax rates it can give rise to a higher or lower charge compared to an e

Future transfers from Scottish Widows plc s long-term business fund to its shareholder s fund will be subject to
charge. Under FRS 19, no provision is required to be made since the timing of such transfers is under Scottis
control. The potential deferred tax liability (undiscounted) not recognised on the balance sheet is approximatel
(2003:

10 Ordinary dividends

	2004 pence per share	2003 pence per share	2002 pence per share	**2004 £m**	2003 £m	2002 £m
Interim: paid	**10.7**	10.7	10.7	**599**	597	597
Final: proposed	**23.5**	23.5	23.5	**1,315**	1,314	1,311
	34.2	34.2	34.2	**1,914**	1,911	1,908

No dividends were paid in 2004 on the £100 of 6 per cent non-cumulative redeemable preference shares issued
note 40). Dividends are being accrued at the rate of 6 per cent per annum and the first payment was made i

11 Earnings per share

	2004	2003
Profit attributable to shareholders	**£ 2,421m**	£ 3,254m
Weighted average number of ordinary shares in issue during the year	**5,590m**	5,581m
Dilutive effect of options outstanding	**35m**	18m
Diluted weighted average number of ordinary shares in issue during the year	**5,625m**	5,599m
Earnings per share	**43.3p**	58.3p
Diluted earnings per share	**43.0p**	58.1p

No adjustment was made to profit attributable to shareholders in calculating diluted earnings per share.
The weighted average number of shares for the year has been calculated after deducting 6 million (2003: 8 million; 2002: 5 r
shares representing the Group s holdings of own shares (note 43).

12 Treasury bills and other eligible bills

	2004 Balance sheet £m	**2004 Valuation £m**	2003 Balance sheet £m
Investment securities:			
Treasury bills and similar securities	**75**	**77**	308
Other eligible bills	**13**	**13**	222
	88	**90**	530
Other securities:			
Treasury bills and similar securities	**4**	**4**	9
	92	**94**	539
Geographical analysis by issuer:			
United Kingdom			336
Latin America	**18**		70
Other	**74**		133
	92		539
Included above:			
Unamortised discounts net of premiums on investment securities			2

	Cost £m	Premiums and discou
Movements in investment securities:		
At 1 January 2004	**528**	**2**
Exchange and other adjustments	**(3)**	
Additions	**430**	
Bills sold or matured	**(830)**	**(5)**
Adjustments on disposal of businesses	**(37)**	
Amortisation of premiums and discounts		**3**
At 31 December 2004	**88**	

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for de
It is expected that tax of £1 million would be payable (2003: £2 million recoverable) if the investment securiti
their year

The difference between the cost of other securities and market value, where the market value is higher than
disclosed as its determination is

13 Loans and advances to banks

	2004 £m
Lending to banks	**2,483**
Deposits placed with banks	**21,083**
Total loans and advances to banks	**23,566**
Provisions for bad and doubtful debts	**(1)**
	23,565
Repayable on demand	**2,477**

Other loans and advances by residual maturity repayable:	
3 months or less	**16,763**
1 year or less but over 3 months	**2,243**
5 years or less but over 1 year	**1,422**
Over 5 years	**661**
Provisions for bad and doubtful debts	**(1)**
	23,565

14 Loans and advances to customers

	2004 £m
Lending to customers	**144,708**
Hire purchase debtors	**4,828**
Equipment leased to customers	**6,387**
Total loans and advances to customers	**155,923**
Provisions for bad and doubtful debts	**(1,662)**
Interest held in suspense	**(21)**
	154,240
Loans and advances by residual maturity repayable:	
3 months or less	**28,748**
1 year or less but over 3 months	**9,878**
5 years or less but over 1 year	**35,301**
Over 5 years	**81,996**
Provisions for bad and doubtful debts	**(1,662)**
Interest held in suspense	**(21)**
	154,240
Of which repayable on demand or at short notice	**15,805**

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contrac
£5,472 million (2003: £

Equipment leased to customers, which is stated after deducting £4,551 million (2003: £4,907 million) of unear
repaya

	2004 £m
3 months or less	**247**
1 year or less but over 3 months	**282**
5 years or less but over 1 year	**1,516**
Over 5 years	**4,342**
	6,387

15 Provisions for bad and doubtful debts and non-perfo

	2004 Specific £m		2004 General £m	2003 Specific £m		2003 General £m	2002 Specific £m	
At 1 January	**1,313**		**382**	1,334		433	1,099	
Exchange and other adjustments	**(11)**			(1)			(55)	
Adjustments on acquisitions and disposals	**(21)**		**(12)**	(49)		(5)		
Transfer from general to specific provisions	**3**		**(3)**	50		(50)		
Advances written off	**(1,028)**			(1,145)			(878)	
Recoveries of advances written off in previous years	**174**			178			203	
Charge (release) to profit and loss account:								
New and additional provisions	**1,571**		**12**	1,552		9	1,544	
Releases and recoveries	**(618)**		**(99)**	(606)		(5)	(579)	
	953		**(87)**	946		4	965	
At 31 December	**1,383**		**280**	1,313		382	1,334	
		1,663			1,695			1,76
In respect of:								
Loans and advances to banks		**1**			18			1
Loans and advances to customers		**1,662**			1,677			1,76
		1,663			1,695			1,76

	2004 £m	200 £m
Non-performing lending comprises:		
Accruing loans on which interest is being placed in suspense	**567**	633
Loans accounted for on a non-accrual basis	**673**	585
	1,240	1,21
Provisions	**(914)**	(916
Interest held in suspense	**(21)**	(28)
	305	274

16 Concentratio

	2004	2003
	£m	£m
Loans and advances to customers		
Domestic		
Agriculture, forestry and fishing	**2,076**	2,025
Manufacturing	**3,292**	3,211
Construction	**1,877**	1,497
Transport, distribution and hotels	**6,753**	4,741
Property companies	**5,775**	4,577
Financial, business and other services	**12,103**	9,652
Personal:		
Mortgages	**80,065**	70,750
Other	**22,833**	20,139
Lease financing	**6,387**	6,470
Hire purchase	**4,828**	4,701
Other	**5,321**	3,351
Total domestic	**151,310**	131,114
International		
Latin America	**125**	557
USA	**2,385**	2,681
Europe	**1,587**	1,981
Rest of the world	**516**	623
Total international	**4,613**	5,842
	155,923	136,956
Provisions for bad and doubtful debts*	**(1,662)**	(1,677)
Interest held in suspense*	**(21)**	(28)
	154,240	135,251

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

The classification of lending as domestic or international is based on the location of the office recording the tran
for certain lending of the international business boo

17 I

	2004 Balance sheet £m	**2004 Valuation £m**	2003 Balance sheet £m	20 V £r
Investment securities				
Government securities	**2,211**	**2,213**	1,895	1,
Bank and building society certificates of deposit	**1,901**	**1,902**	2,515	2,
Corporate debt securities	**2,581**	**2,587**	1,895	1,
Mortgage backed securities	**2,774**	**2,781**	2,211	2,
Other asset backed securities	**3,761**	**3,756**	3,942	3,
Other debt securities	**1,140**	**1,141**	1,283	1,
	14,368	**14,380**	13,741	13
Other securities				
Government securities	**4,524**	**4,524**	7,253	7,
Other public sector securities	**51**	**51**	106	10
Corporate debt securities	**5,733**	**5,733**	6,785	6,
Mortgage backed securities	**504**	**504**	664	66
Other asset backed securities	**14**	**14**	120	12
	25,194	**25,206**	28,669	28
Due within 1 year	**4,090**		5,045	
Due 1 year and over	**21,104**		23,624	
	25,194		28,669	
Geographical analysis by issuer				
United Kingdom	**5,048**		5,232	
Other European	**11,825**		15,949	
North America and Caribbean	**5,080**		5,130	
Latin America	**76**		98	
Asia Pacific	**2,763**		1,994	
Other	**402**		266	
	25,194		28,669	
Unamortised discounts net of premiums on investment securities	**56**		341	
Investment securities				
Listed	**8,925**	**8,931**	8,162	8,
Unlisted	**5,443**	**5,449**	5,579	5,
	14,368	**14,380**	13,741	13
Other securities				
Listed	**10,378**	**10,378**	14,374	14
Unlisted	**448**	**448**	554	55
	10,826	**10,826**	14,928	14

17 Debt securit

	Cost £m	Premiums and discounts £m	Provisions £m	Total £m
Movements in investment securities:				
At 1 January 2004	**13,731**	**109**	**99**	**13,741**
Exchange and other adjustments	**(484)**		**(2)**	**(482)**
Additions	**9,637**			**9,637**
Transfers from other securities	**281**			**281**
Securities sold or matured	**(8,787)**	**(2)**	**(25)**	**(8,764)**
Adjustments on disposal of businesses	**(23)**		**(7)**	**(16)**
Charge for the year			**43**	**(43)**
Amortisation of premiums and discounts		**14**		**14**
At 31 December 2004	**14,355**	**121**	**108**	**14,368**

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for de
It is expected that tax of £4 million (2003: £3 million) would be payable if the investment securities were sold a

The difference between the cost of other securities and market value, where the market value is higher than
disclosed as its determination is

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	2004 Balance sheet £m	**2004 Valuation £m**	2003 Balance sheet £m	2003 Valuatio £m
Investment securities				
Listed	**5**	**7**	5	5
Unlisted	**34**	**56**	30	126
	39	**63**	35	131
Other securities				
Listed	**176**	**176**	423	423
	215	**239**	458	554

	Cost £m	Provisions £m	Total £m
Movements in investment securities:			
At 1 January 2004	**41**	**6**	**35**
Exchange and other adjustments	**(1)**	**(1)**	
Additions	**21**		**21**
Disposals	**(12)**	**(5)**	**(7)**
Adjustments on disposal of businesses	**(1)**		**(1)**
Charge for the year		**9**	**(9)**
At 31 December 2004	**48**	**9**	**39**

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for de
If the investment securities were sold at their year end valuation no tax is expected to be payable as any such
exempt or covered by available

The difference between the cost of other securities and market value, where the market value is higher than
disclosed as its determination is

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19 Assets transferred under sale and repurchas

	2004	2003
	£m	£m
Assets subject to sale and repurchase agreements:		
Treasury bills and other eligible bills	**117**	136
Debt securities	**10,454**	4,503
	10,571	4,639

These investments have been sold to third parties but the Group is committed to reacquire them at a futu predetermined price. At 31 December 2004 the Group held £12,783 million (2003: £2,643 million) of securiti under reverse repurchase agreements. The above disclosure includes assets held through these agreements an resold as collateral for the Group s c

20 Interests in

	£m
At 1 January 2004	**54**
Share of losses	**(1)**
At 31 December 2004	**53**

The Group s largest investments are in tw

	Group interest	Nature
iPSL	19.5% of issued ordinary share capital	Cheque
GF Two Limited (formerly Goldfish Holdings Limited)	25.0% of issued ordinary share capital	No long

In the year ended 31 December 2004 £16 million (2003: £25 million; 2002: £31 million) of fees payable to i included in the Group s administrative expenses and £3 million (2003: £3 million; 2002: £6 million) of charges to included in the Group s income. The Group has also prepaid £17 million (2003: £13 million) of fees in respect amount is included in prepayments and ac

GF One Limited (formerly Goldfish Bank Limited, a wholly owned subsidiary of GF Two Limited) has lent £44 nil) to the Group and this amount is included in customer accounts. Interest payable to GF One Limited of £1 mil has been charged to the Group s profit and loss account and capitalised

In the year ended 31 December 2003 £7 million (2002: £25 million) of interest receivable from GF One Limited (2002: £12 million) of charges to GF One Limited in respect of administrative costs were included in the G

Included in the gross assets disclosed on the balance sheet is an investment of £3 million (2003: £3 million

21 Interests in group

The principal group undertakings, all of which have prepared accounts to 31 December and whose results are
consolidated accounts of Lloyds TSB

	Country of registration/ incorporation	Percentage of equity share capital and voting rights held	Nature of business
Lloyds TSB Bank plc	England	100%	Banking and financial services
Cheltenham & Gloucester plc	England	100%	Mortgage lending and retail inve
Lloyds TSB Commercial Finance Limited	England	100%	Credit factoring
Lloyds TSB Leasing Limited	England	100%	Financial leasing
Lloyds TSB Private Banking Limited	England	100%	Private banking
The Agricultural Mortgage Corporation PLC	England	100%	Long-term agricultural finance
Lloyds TSB Offshore Limited	Jersey	100%	Banking and financial services
Lloyds TSB Scotland plc	Scotland	100%	Banking and financial services
Lloyds TSB General Insurance Limited	England	100%	General insurance
Scottish Widows Investment Partnership Group Limited	England	100%	Investment management
Abbey Life Assurance Company Limited	England	100%	Life assurance
Lloyds TSB Insurance Services Limited	England	100%	Insurance broking
Lloyds TSB Asset Finance Division Limited	England	100%	Consumer credit, leasing and rel
Black Horse Limited	England	100%	Consumer credit, leasing and rel
Scottish Widows plc	Scotland	100%	Life assurance
Scottish Widows Annuities Limited	Scotland	100%	Life assurance

The country of registration/incorporation is also the principal area of operation for each of the above group unde

Lloyds TSB Bank plc operates principally in the UK but also through branches in Belgium, Dubai, Ecuador, C
Kong, Japan, Luxembourg, Malaysia, Monaco, Netherlands, Paraguay, Singapore, Spain, Switzerland, Uruguay,
representative

22 Qua

The Group has interests in a number of entities which, although they do not meet the legal definition of a subsidia
benefits that are in substance no different from those that would arise if those entities were subsidiaries. As a cons
entities are consolidated in the same way as if they we

The primary financial statements of these entities can be summari

	Equipment leasing vehicles			Structured finance vehicles	
	2004	2003	2002	**2004**	2003
	£m	£m	£m	**£m**	£m
Profit and loss account					
Interest receivable				**132**	82
Interest payable	**(74)**	(59)	(55)	**(83)**	(52)
Other operating income	**116**	93	80	**(8)**	(2)
Total income	**42**	34	25	**41**	28
Operating expenses	**(57)**	(36)	(24)		
(Loss) profit on ordinary activities before taxation	**(15)**	(2)	1	**41**	28
Tax on (loss) profit on ordinary activities	**5**	6	5	**(5)**	(2)
(Loss) profit on ordinary activities after taxation	**(10)**	4	6	**36**	26
Dividends paid				**(24)**	_
(Loss) profit for the year	**(10)**	4	6	**12**	26
Balance sheet					
Assets:					
Loans and advances to customers				**410**	345
Debt securities				**3,770**	3,718
Tangible fixed assets	**1,742**	1,408			
Other assets and prepayments	**49**	23		**36**	34
Total assets	**1,791**	1,431		**4,216**	4,097
Liabilities:					
Deposits by banks	**1,527**	1,309			672
Debt securities in issue				**3,272**	3,123
Other liabilities and accruals	**260**	108		**31**	18
Shareholders funds	**4**	14		**913**	284
Total liabilities	**1,791**	1,431		**4,216**	4,097
Cash flow statement					
Net cash inflow (outflow) from operating activities	**388**	132	422	**52**	1,173

23 Intangib

	Cost	Amortisation	Net book value
	£m	£m	£m
Goodwill			
At 1 January 2004	**2,626**	**113**	**2,513**
Acquisition adjustment	**(34)**		**(34)**

Adjustments on disposal of businesses	**(14)**	**(4)**	**(10)**
Charge for the year		**44**	**(44)**
At 31 December 2004	**2,578**	**153**	**2,425**

24 Tangible fixe

	Premises	Equipment
	£m	£m
Cost:		
At 1 January 2004	**1,192**	**2,186**
Exchange and other adjustments		**(1)**
Adjustments on disposal of businesses	**(10)**	**(13)**
Additions	**73**	**262**
Disposals	**(18)**	**(109)**
At 31 December 2004	**1,237**	**2,325**
Depreciation:		
At 1 January 2004	**416**	**1,296**
Exchange and other adjustments		**(1)**
Adjustments on disposal of businesses	**(4)**	**(8)**
Charge for the year (£589 million in total; 2003: £646 million; 2002: £642 million)	**66**	**257**
Disposals	**(5)**	**(81)**
At 31 December 2004	**473**	**1,463**
Balance sheet amount at 31 December 2004	**764**	**862**
		4,181
Balance sheet amount at 31 December 2003	776	890
		3,918

	2004	2003
	£m	£m
Balance sheet amount of premises comprises:		
Freeholds	**349**	369
Leaseholds 50 years and over unexpired	**140**	133
Leaseholds less than 50 years unexpired	**275**	274
	764	776
Land and buildings occupied for own activities	**695**	705

The Group s residual value exposure in respect of operating lease assets, all of which are expected to be dispose the lease terms,

	2004	2003
	£m	£m
Residual value expected to be recovered in:		
1 year or less	**378**	181
2 years or less but over 1 year	**128**	330
5 years or less but over 2 years	**647**	505
Over 5 years	**588**	445
Total exposure	**1,741**	1,461

25 Lease

At 31 December 2004, the Group was committed to various non-cancellable operating leases, which require a
rental payme

	Premises
	£m
Payable within one year	**208**
1 to 2 years	**201**
2 to 3 years	**196**
3 to 4 years	**191**
4 to 5 years	**185**
Over 5 years	**342**
	1,323

Annual commitments under non-cancellable operating lease ag

	2004	**2004**	2003	200
	Premises	**Equipment**	Premises	Eq
	£m	**£m**	£m	£m
Leases on which the commitment is due to expire in:				
1 year or less	**6**		7	
5 years or less but over 1 year	**26**		29	
Over 5 years	**176**		190	
	208		226	

Obligations under finan

	2004	**2004**	2003	2003
	Premises	**Equipment**	Premises	Equipment
	£m	**£m**	£m	£m
Amounts payable in:				
1 year or less	**1**	**1**		
5 years or less but over 1 year	**3**	**1**		
	4	**2**		

26 Capital

Capital expenditure contracted but not provided for at 31 December 2004 amounted to £150 million (2003: £77 mi
£146 million (2003: £71 million) relates to assets to be leased to customers under op

2

	2004
	£m
Balances arising from derivatives used for trading purposes (note 47a)	**2,015**
Balances arising from derivatives used for hedging purposes	**254**

Settlement balances	**40**
Other assets	**911**
	3,220

28 Prepayments and ac

	2004
	£m
Interest receivable	**1,075**
Deferred expenditure incurred under cash gift and discount mortgage schemes	**78**
Other debtors and prepayments	**1,420**
	2,573

29 Long-term assur

a Analysis of em

	2004
	£m
The embedded value included in the consolidated balance sheet comprises:	
Net tangible assets of life companies including surplus	**3,842**
Value of other shareholder s interests in the long-term assurance business	**2,939**
	6,781

	2004	2003
	£m	£m
Movements in the embedded value balance:		
At 1 January	**6,481**	6,213
Exchange and other adjustments	**(16)**	12
Profit after tax	**516**	296
Adjustments on disposal of businesses		(38)
Dividends	**(200)**	(2)
At 31 December	**6,781**	6,481

b Analysis of income from long-term assur

Income from long-term assurance business included in the profit and loss account can be divided into those items operating profit of the business and other items. Included within operating profit are the fo

New business contribution. This represents the value recognised at the end of the year from new business written after taking into account the cost of establishing technical provisions and reserves, less the costs of acquirin including commissions paid to independent financial advisers and other dir

Contribution from existing business. This comprises the follo

The expected return arising from the unwinding of the discount applied to the expected cash flows at the be year;

Experience variances caused by the differences between the actual experience during the year and the expec experience;

The effects of changes in assumptions, other than economic assumptions, and other items; and

Customer remediation provisions (see c).

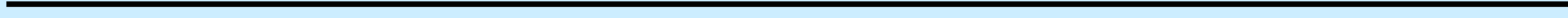
Development costs. This represents the costs associated with new product development and implementation of the

Investment earnings. This represents the expected investment return on both the net tangible assets and t shareholder s interest in the long-term business account, based upon the economic assumptions made at the begin

Operating profit is adjusted by the following items to arrive at income from long-term assu

Investment variance: this represents (a) the difference between the actual investment return in the year on invest shareholder funds and the expected return based upon the economic assumptions made at the beginning of the yea of these fluctuations on the value of in-force business; and (c) other effects of changes in extraneous economic beyond the control o

Changes in economic assumptions: this represents the effect of changes in the economic assumptions r



29 Long-term assurance business (continued)	**2004**	2003	2002
	£m	£m	£m
Income from long-term assurance business:			
New business contribution	**225**	150	136
Existing business:			
Expected return	**289**	264	312
Experience variances	**(41)**	(16)	(1)
Assumption changes and other items	**(39)**	(75)	78
Customer remediation provisions (see c)	**(12)**	(100)	(205)
	197	73	184
Development costs	**(11)**	(13)	
Investment earnings	**167**	153	214
Operating profit	**578**	363	534
Investment variance	**139**	112	(883)
Changes in economic assumptions (see e)	**(2)**	(22)	55
Income from long-term assurance business before tax	**715**	453	(294)
Attributed tax	**(199)**	(157)	44
Income from long-term assurance business after tax	**516**	296	(250)

This analysis details the components of embedded value income for 2004 and the comparative periods. These m
comparable in all respects to the analysis of life and pensions profitability given on page 30, in the operatin
review, since that analysis includes certain items which are accounted for outside of the embedded value
addition, comparatives in the operating and financial review have been restated to reflect the impact of the introdu
of the management of the Group s distribution channels

c Customer remediat

Redress to past purchasers of p

Following an industry wide investigation in the 1990 s it was concluded that a large number of customers wh
personal pension products had been poorly advised by insurance companies and intermediaries; an action plan
requiring the UK pensions industry to review all cases of possible misselling and, where appropriate, pay compe
review of pension cases in the Group has progressed, provisions have been established for the estimated cost of

	2004	2003	2002
	£m	£m	£m
Movements in the provision over the last three years:			
At 1 January	**25**	37	203
Accrual of interest on the provision		2	17
Charge for the year		44	40
Compensation paid	**(12)**	(58)	(223)
At 31 December	**13**	25	37

The review is now nearing completion and management do not expect any further material changes in th

29 Long-term assurance busin

Mortgage endowments and other sa

During 2002, a review was carried out in conjunction with the FSA into sales of mortgage endowment and o savings products made by the Abbey Life sales force between 1988 and its disposal by Lloyds TSB Group in Feb a result of this review, the Group is required to pay compensation to customers in those cases where sales practic have been deficient. A provision has been established to meet the cost of the payments to those customers; a p held against the estimated cost of redress payments to customers in respect of products sold by the Abbey Life s to 1988. During 2004 management has reviewed the adequacy of the provisions held in the light of experienc market conditions and an additional charge of £12 million (2003: £56 million; 2002: £165 million) l

	2004	2003	2002
	£m	£m	£m
Movements in the provision over the last three years:			
At 1 January	**149**	165	
Accrual of interest on the provision	**3**	5	
Charge for the year	**12**	56	165
Compensation paid	**(140)**	(77)	
At 31 December	**24**	149	165

Details of the provisions held in respect of the estimated cost of making redress payments to customers in respect sales by the Group s banking operations are

d With-profits options a

In common with other organisations in the life assurance industry, prior to its demutualisation Scottish Widows which contained potentially valuable options and guarantees, including guaranteed annuity option policies. Und the transfer of the Scottish Widows business, a separate memorandum account was created within the With-Prof the Additional Account which is available, inter alia, to meet any additional costs of providing guaranteed benefits policies; the Additional Account had a value at 31 December 2004 of £1.4 billion (2003: £1.4 billion). To the Additional Account is insufficient to provide these benefits any shortfall would be met by Lloy

Since demutualisation in 2000, Scottish Widows continued to write policies containing similar features, although products written has since reduced and is now not significant. The Additional Account is not available to meet cost of providing the benefits on

The eventual cost of providing benefits on the policies written both pre and post demutualisation is depende number of variables, includin

- future interest rate and equity market trends;
- demographic factors, such as future persistency and mortality; and
- the proportion of policyholders who seek to exercise their options.

The ultimate cost, and any impact upon Lloyds TSB Group, will not be known for many years. However, Scotti developed, and will continue to develop, an actuarial model to assist in the management of the With-Profits Fu regulatory requirements. The model allows management to estimate the effects of different economic scen financial position of the fund and consider the implications of different management actions. Output from this m that the possible cost of providing benefits on policies containing features such as options and guarantees var depending on the economic scenario encountered, could result in Lloyds TSB Group incurring a liability information available at present, having considered the range of possible outcomes, and after making allowance f proposed future management actions, Lloyds TSB Group currently considers that no provision is necessary. How is subject to ongoing development and the position will be kep

•

In accordance with the Association of British Insurers detailed guidance for the preparation of figures using the method of accounting, the Group has reviewed the economic assumptions used in the embedded value calculations

requires that the assumptions should be reviewed at each

The principal economic assumptions have been revised at 31 December 2

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

29 Long-term assurance busine

The revised assumptions have resulted in a net charge to the profit and loss accoun

Other assumptions used to derive the embedded value

Assumed rates of mortality and morbidity are taken from published tables adjusted for demographic difference
Assumptions in respect of lapse rates take into account both the effects of recent actual experience and future e
the companies concerned.
Current tax legislation and rates have been assumed to continue unaltered, except where future changes have b
announced. The UK corporation tax rate used for grossing up was 30 per cent (2003: 30 per cent). The normali
investment earnings have been grossed up at a composite longer term tax rate of 18 per cent (2003: 17 per cent
The value of the in-force business does not allow for future premiums under recurring single premium busines
non-contractual increments, which are included in new business when the premium is received. Department of
Security rebates have been treated as recurring single premiums.
Future bonus rates on with-profits business are set at levels which would fully utilise the assets supporting the
with-profits business. The proportion of profits derived from with-profits business allocated to the shareholder
been assumed to continue at the current rate of one-ninth of the cost of the eligible bonus, in accordance with t
of the transfer of the Scottish Widows business.

The table below shows the effect on both the embedded value at 31 December 2004 and the new business cont
year then ended of theoretical changes in the main economi

	Embedded value £m	New business contribution £m
As published	**6,781**	**225**
Effect of a 1% increase in the discount rate	**(189)**	**(26)**
Effect of a 1% reduction in the discount rate	**213**	**30**
Effect of a 1% reduction in the return on equities	**(84)**	**(12)**

g

The long-term assurance assets attributable to policyhol

	2004 **£m**	2003 £m
Investments	**56,960**	52,082
Premises and equipment	**35**	40
Other assets	**1,741**	1,680
	58,736	53,802
Net tangible assets of life companies including surplus	**(3,842)**	(3,602)
	54,894	50,200
Investments shown above comprise:		
Fixed interest securities	**15,985**	15,947
Stocks, shares and unit trusts	**31,896**	27,590
Investment properties	**3,150**	3,540
Other properties	**120**	121
Mortgages and loans	**76**	65
Deposits	**5,733**	4,819
	56,960	52,082
The liabilities to policyholders comprise:		
Technical provisions:		
Long-term business provision (net of reinsurance)	**23,705**	23,730

Claims outstanding (net of reinsurance)	**246**	238
Technical provisions for linked liabilities	**28,256**	25,023
Fund for future appropriations	**1,379**	346
Other liabilities	**1,308**	863
	54,894	50,200

For the purposes of consolidating the long-term assurance policyholder assets and liabilities into the Group
deduction has been made of £130 million (2003: £122 million) for own shares held within the wi

29 Long-term assurance busin

h Disclosures on a modified statutory

The individual statutory accounts of the Group s life assurance subsidiaries are prepared under the modified st basis, in the same way as the statutory accounts of listed insurance groups in the UK. The principal differen modified statutory solvency basis and the embedded value basis used for the preparation of the Group s accounts prepared under the modified statutory solvency basis do not reflect the value of in-

Under the modified statutory solvency basis, the results of the Group s long-term life and pensions businesses

	2004	2003	20
	£m	£m	£
Premiums	**5,575**	5,139	
Investment income	**1,981**	2,073	
Unrealised gains on investments	**2,815**	4,833	
Other income		6	
	10,371	12,051	
Claims	**(5,222)**	(4,433)	
Change in technical provisions	**(3,208)**	(4,540)	
Expenses	**(535)**	(689)	
Realised gains (losses) on investments	**244**	(1,679)	
Unrealised losses on investments		(22)	
Other charges		(4)	
Tax attributable to long-term business	**(110)**	(41)	
Transfer to the fund for future appropriations	**(1,084)**	(414)	
Balance on the technical account long-term business	**456**	229	
Tax attributable to balance on the technical account long-term business	**155**	112	
Income in shareholder fund	**55**	34	
Expenses in shareholder fund			
Profit (loss) on ordinary activities before tax	**666**	375	
Tax on profit on ordinary activities	**(170)**	(125)	
Profit (loss) on ordinary activities after tax	**496**	250	
Dividends proposed	**(200)**		
Profit (loss) for the financial year	**296**	250	

Income from long-term assurance business after tax reconciles to the profit (loss) calculated on a modified stat b

	2004	2003
	£m	£m
Income from long-term assurance business attributable to the shareholder after tax	**516**	296
Increase in value-in-force taken to profit	**(60)**	(2)
	456	294
Other differences:		
Movement in deferred acquisition costs	**89**	66
Tax adjustment	**7**	(60)
Other	**(56)**	(50)
Profit (loss) on ordinary activities after tax on a modified statutory solvency basis	**496**	250

29 Long-term assurance busin

A summarised balance sheet on a modified statutory solvency basis

	2004	2003
	£m	£m
Assets		
Investments	**29,069**	27,468
Assets held to cover linked liabilities	**28,256**	25,023
Other assets	**1,992**	2,018
Total assets	**59,317**	54,509
Liabilities		
Shareholder s funds	**4,581**	4,234
Fund for future appropriations	**1,379**	346
Long-term business provision	**23,705**	23,730
Technical provision for linked liabilities	**28,256**	25,023
Other creditors	**1,396**	1,176
Total liabilities	**59,317**	54,509

Net of reinsurers share of

The value of long-term business attributable to the shareholder on an embedded value basis reconciles to the n Group s life and pensions subsidiaries calculated on a modified statutory solvency

	2004	2003
	£m	£m
Long-term assurance business attributable to the shareholder embedded value basis	**6,781**	6,481
Value of in-force business	**(2,939)**	(2,879)
	3,842	3,602
Other differences:		
Deferred acquisition costs	**585**	496
Tax adjustment	**152**	145
Other adjustments	**2**	(9)
Net tangible assets of life operations on a modified statutory solvency basis	**4,581**	4,234

30 Assets and liabilities denominated in fore

	2004	2003
	£m	£m
Assets		
Denominated in sterling	**171,704**	153,775
Denominated in other currencies	**53,375**	48,159
	225,079	201,934
Liabilities		
Denominated in sterling	**171,587**	153,769
Denominated in other currencies	**53,492**	48,165
	225,079	201,934

Assets and liabilities exclude long-term assurance assets attributable to policyholders and liabilities to

31 Dep

	2004
	£m
Repayable on demand	5,183
Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable:	
3 months or less	31,833
1 year or less but over 3 months	2,500
5 years or less but over 1 year	21
Over 5 years	201
	39,738

The breakdown of deposits by banks between the domestic and international offices of the Group is

	2004
	£m
Domestic:	
Non-interest bearing	180
Interest bearing	33,029
	33,209
International:	
Non-interest bearing	32
Interest bearing	6,497
	6,529
	39,738

32 Custo

	2004
	£m
Repayable on demand	93,846
Other customer accounts with agreed maturity dates or periods of notice by residual maturity repayable:	
3 months or less	18,938
1 year or less but over 3 months	2,442
5 years or less but over 1 year	5,632
Over 5 years	1,204
	122,062

The breakdown of customer accounts between the domestic and international offices of the Group is

	2004
	£m
Domestic:	
Non-interest bearing	**3,529**
Interest bearing	**115,699**
	119,228
International:	
Non-interest bearing	**296**
Interest bearing	**2,538**
	2,834
	122,062

33 Debt securities in issue

	2004
	£m
Bonds and medium-term notes by residual maturity repayable:	
1 year or less	**167**
2 years or less but over 1 year	**144**
5 years or less but over 2 years	**1,053**
Over 5 years	**3,999**
	5,363
Other debt securities by residual maturity repayable:	
3 months or less	**18,489**
1 year or less but over 3 months	**2,941**
5 years or less but over 1 year	**424**
Over 5 years	
	21,854
	27,217

Debt securities in issue include certificates of deposit of £15,226 million (2003: £16,415 million) and comm
£6,473 million (2003: £3,625 million). An amount of £5,097 million (2003: £5,184 million) relating to debt s
under the Group s Euro Medium Term Note programme is included

34 Other liabilities

	2004
	£m
Balances arising from derivatives used for trading purposes (note 47a)	**3,135**
Balances arising from derivatives used for hedging purposes	**667**
Current tax	**399**
Dividends	**1,315**
Settlement balances	**38**
Other liabilities	**1,065**
	6,619

35 Accruals and de

	2004
	£m
Interest payable	**1,581**
Other creditors and accruals	**2,285**
	3,866

3

	2004
	£m
Short-term timing differences	(196)
Accelerated depreciation allowances	1,669
	1,473
	£m
At 1 January 2004	1,376
Exchange and other adjustments	(26)
Adjustments on disposal of assets	(23)
Charge for the year	146
At 31 December 2004	1,473

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the ex
balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings i
been entered into. Deferred tax balances have not be

36 Deferred t

The deferred tax balance at 31 December 2004 does not include any amounts in respect of the Group s post-re
liability which is shown on the balance sheet after deduction of a deferred tax asset of £956 million (2003

37 Other provisions for liabilities and charges

	Customer remediation provisions	Insurance provisions	Vacant leasehold property and other	Total
	£m	£m	£m	£m
At 1 January 2004	**97**	**219**	**86**	**402**
Exchange and other adjustments		**(6)**		**(6)**
Adjustments on disposal of businesses			**(1)**	**(1)**
Provisions applied	**(105)**	**(203)**	**(13)**	**(321)**
Charge for the year	**100**	**224**	**19**	**343**
At 31 December 2004	**92**	**234**	**91**	**417**

Customer remediat

The Group establishes provisions for the estimated cost of making redress payments to customers in respect of pas
where the original sales processes are found to have been deficient. During 2004 management have again reviewe
of the provisions held having regard to current complaint volumes and the level of payments being made an
additional charge of £100 million (2003: £200 million) b

At 31 December 2004 the provisions held mainly related to past sales of mortgage endowment policies. Mortgag
were sold to customers through the branch network of Lloyds TSB Bank, Lloyds TSB Scotland and Cheltenham
and underwritten by life assurance companies within the Group and also by third parties. The principal assump
been made in the calculation of the provision relate to the number of cases that are likely to require redress an
average cost per case. The ultimate cost and timing of the payments remains highly uncertain and will be influenc
factors beyond the control of management, such as regulatory actions, media interest and the performance
markets. However, it is expected that the majority of the expenditure will be incurred over the

Insura

The Group s general insurance subsidiary maintains provisions for outstanding claims which represent the
settling all claims arising from events which have occurred up to the balance sheet date and these include provisio
of claims notified but not settled and for claims incurred but not yet reported. In addition, in line with the requ
Insurance Companies (Reserves) Act 1995, a claims equalisation provision is maintained in relation to property
majority of provisions in respect of claims will be settled in the following year, although new provisions will then
respect of claims arising from that year. The level of the claims equalisation provision will be adjusted annua
account the guidelines contained in the legislation, and such provisions will be held for as long as the Group con
the relevant types of general insu

The Group also carries provisions in respect of its obligations relating to UIC Insurance Company Limited (UIC
owned by the Group. The Group has indemnified a third party against losses in the event that UIC does not honour
under a re-insurance contract, which is subject to asbestosis and pollution claims in the US. The ultimate exposu
respect of the insurance business of UIC is uncertain. Accordingly, the provision has been based upon an actua
prospective claims, taking account of re-insurance arrangements protecting UIC and UIC s available assets. Giv
nature of many of the claims to which UIC is exposed, it is expected to be many years before the Group s ultimat
assessed

Vacant leasehold prop

Vacant leasehold property provisions are made by reference to a prudent estimate of expected sub-let income and
of disposing of the Group s interest in the lease, taking into account conditions in the property market. Thes
reassessed on an annual basis and will run off during the remaining life of the leases concerned; the run off p
averages 5 years. Where a property is disposed of earlier than anticipated, any remaining balance in the provision
prope

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38 Subordinated liabilities

	Notes	**2004** **£m**	2 £
Undated loan capital		**5,852**	5
Dated loan capital		**4,400**	4
Total subordinated liabilities		**10,252**	1
Undated loan capital*			
Primary Capital Undated Floating Rate Notes:	a		
Series 1 (US$750 million)		**389**	4
Series 2 (US$500 million)		**259**	2
Series 3 (US$600 million)		**311**	3
11 3/4% Perpetual Subordinated Bonds		**100**	1
6.625% Perpetual Capital Securities (750 million)	b	**526**	5
6.90% Perpetual Capital Securities			
callable 2007 (US$1,000 million)	c	**512**	5
5 5/8% Undated Subordinated Step-up Notes			
callable 2009 (1,250 million)	f	**877**	8
Undated Step-up Floating Rate Notes			
callable 2009 (150 million)	a	**105**	1
6 5/8% Undated Subordinated Step-up Notes callable 2010	e	**407**	4
6.35% Step-up Perpetual Capital Securities			
callable 2013 (500 million)	d, f	**350**	3
5.57% Undated Subordinated Step-up			
Coupon Notes callable 2015 (¥20,000 million)	g	**101**	1
5.125% Undated Subordinated Step-up Notes			
callable 2016		**497**	4
6 1/2% Undated Subordinated Step-up Notes callable 2019	e	**267**	2
8% Undated Subordinated Step-up Notes callable 2023	e	**199**	1
6 1/2% Undated Subordinated Step-up Notes callable 2029	e	**455**	4
6% Undated Subordinated Step-up			
Guaranteed Bonds callable 2032	e	**497**	4
		5,852	5
Dated loan capital			
Subordinated Floating Rate Notes 2004			5
7 3/8% Subordinated Bonds 2004			4
Subordinated Floating Rate Notes 2004			1
8 1/2% Subordinated Bonds 2006		**250**	2
7 3/4% Subordinated Bonds 2007		**299**	2
5 1/4% Subordinated Notes 2008 (DM 750 million)		**270**	2
10 5/8% Guaranteed Subordinated Loan Stock 2008		**100**	1
9 1/2% Subordinated Bonds 2009		**100**	1
Subordinated Step-up Floating Rate Notes 2009			
callable 2004 (US$500 million)			2
6 1/4% Subordinated Notes 2010 (400 million)		**281**	2
Subordinated Floating Rate Notes 2010 (US$400 million)	a	**207**	2
12% Guaranteed Subordinated Bonds 2011		**100**	1
9 1/8% Subordinated Bonds 2011		**149**	1
4 3/4% Subordinated Notes 2011 (850 million)		**582**	5

5 7/8% Subordinated Guaranteed Bonds 2014 (750 million)		**462**	4
5 7/8% Subordinated Notes 2014		**148**	1
6 7/8% Subordinated Notes 2015		**345**	3
Subordinated Step-up Floating Rate Notes 2016			
callable 2011 (500 million)	a, h	**353**	
Subordinated Floating Rate Notes 2020 (100 million)	a	**70**	7
9 5/8% Subordinated Bonds 2023		**338**	3
5.75% Subordinated Step up Notes 2025 callable 2020	h	**346**	
		4,400	4

38 Subordinated liabilit

These liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of deposito creditor

* In certain circumstances, these notes and bonds would acquire the characteristics of preference share capital. Any repayments of undated loan capital would require the prior consent of the Financial Services Authority.

a) These notes bear interest at rates fixed periodically in advance based on London Interbank rates.

b) In certain circumstances the interest payments on these securities can be deferred although in this case neither Bank plc nor Lloyds TSB Group plc can declare or pay a dividend until any deferred payments have been mad of a winding up of Lloyds TSB Bank plc, these securities will acquire the characteristics of preference shares. can be redeemed at par at the option of Lloyds TSB Bank plc on or after 25 October 2006.

c) In certain circumstances the interest payments on these securities can be deferred although in this case neither Bank plc nor Lloyds TSB Group plc can declare or pay a dividend until payments are resumed. Any deferred p be made good on redemption of the securities. In the event of a winding up of Lloyds TSB Bank plc, these sec acquire the characteristics of preference shares. The securities can be redeemed at par at the option of Lloyds T on or after 22 November 2007.

d) In certain circumstances the interest payments on these securities can be deferred although in this case neither Bank plc nor Lloyds TSB Group plc can declare or pay a dividend until any deferred payments have been mad of a winding up of Lloyds TSB Bank plc, these securities will acquire the characteristics of preference shares. can be redeemed at par at the option of Lloyds TSB Bank plc on or after 25 February 2013.

e) At the callable date the coupon on these Notes will be reset by reference to the applicable five year benchmark

f) In the event that these Notes are not redeemed at the callable date, the coupon will be reset to a floating rate.

g) In the event that these Notes are not redeemed at the callable date, the coupon will be reset to a fixed margin o year Yen swap rate.

h) Issued during 2004 primarily to finance the general business of the Group.

	2004	200
	£m	£m
Dated subordinated liabilities are repayable as follows:		
1 year or less		505
2 years or less but over 1 year	**250**	
5 years or less but over 2 years	**769**	917
Over 5 years	**3,381**	3,0
	4,400	4,4

39 Non-equity min

Non-equity minority inte

	2004
	£m
Euro Step-up Non-Voting Non-Cumulative Preferred Securities callable 2012 (430 million)*	**302**
Sterling Step-up Non-Voting Non-Cumulative Preferred Securities callable 2015**	**248**
Capital instruments	**550**
European Financial Institution Investments Partnership	
LM ABS Investment Partnership	
	550

* These securities constitute limited partnership interests in Lloyds TSB Capital 1 L.P., a Jersey limited partnership in which L (General Partner) Limited, a wholly owned subsidiary, is the general partner. Non-cumulative income distributions accrue at 7.375 per cent per annum up to 7 February 2012; thereafter they will accrue at a rate of 233 basis points above EURIBOR, t annually.

** These securities constitute limited partnership interests in Lloyds TSB Capital 2 L.P., a Jersey limited partnership in which L (General Partner) Limited, a wholly owned subsidiary, is the general partner. Non-cumulative income distributions accrue at 7.834 per cent per annum up to 7 February 2015; thereafter they will accrue at a rate of 350 basis points above a rate based o

specified UK government stock.

Both of the above issues were made under the limited subordinated guarantee of Lloyds TSB Bank plc. In certain circumstance
securities will be mandatorily exchanged for preference shares in Lloyds TSB Group plc. Lloyds TSB Group plc has entered i
whereby dividends may only be paid on its ordinary shares if sufficient distributable profits are available for distributions du
year on these pre

39 Non-equity minority intere

These securities constituted interests in European Financial Institution Investments Partnership, an English law general partn
the principal partner is Langbourn Holdings Limited, a wholly owned subsidiary of the Group. During 2004 the partnership
and the capital returned to the partners.
These securities constituted interests in LM ABS Investment Partnership, an English law general partnership in which the pr
was Lime Street (Funding) Limited, a wholly owned subsidiary of the Group. During 2004 the partnership was dissolved anc
returned to the partners.

40 Called-up share capital

	2004	2003	20
Authorised:			
Sterling	**£m**	£m	£r
6,911 million Ordinary shares of 25p each	**1,728**	1,728	1,
79 million Limited voting ordinary shares of 25p each	**20**	20	20
175 million Preference shares of 25p each	**44**	44	44
	1,792	1,792	1,
US dollars	**US$m**	US$m	U
160 million Preference shares of US25 cents each	**40**	40	40
Euro	**m**	m	r
160 million Preference shares of 25 cents each	**40**	40	40
Japanese yen	**¥m**	¥m	¥r
50 million Preference shares of ¥25 each	**1,250**	1,250	1,

	2004	2003	20
	£m	£m	£r
Issued and fully paid:			
Ordinary shares of 25p each			
At 1 January	**1,398**	1,396	1,
Issued to the QUEST (note 43) (2004: nil; 2003: 6 million shares; 2002: 18 million shares)		1	5
Issued under employee share schemes (2004: 3 million shares; 2003: 5 million shares; 2002: 1 million shares)	**1**	1	
At 31 December	**1,399**	1,398	1,
Limited voting ordinary shares of 25p each			
At 1 January and 31 December	**20**	20	20
	1,419	1,418	1,

In addition, during the year the directors approved the allotment at par of 400 6 per cent non-cumulative redeema
shares of 25p each. The shares, which are redeemable at the option of the Company at any time, carry the rights
non-cumulative preferential dividend at a rate of 6 per cent per annum; no dividend shall be payable in th
directors determine that prudent capital ratios would not be maintained if the dividend were paid. Upon winding
rank equally with any other preference shares issued by

Number of shares in issue:	**2004**	2003	2002
Ordinary shares of 25p each	**5,596,397,111**	5,593,737,422	5,58
Limited voting ordinary shares of 25p each	**78,947,368**	78,947,368	78,9
6% Non-Cumulative Redeemable Preference shares of 25p each	**400**		

The limited voting ordinary shares are held by the Lloyds TSB Foundations. These shares carry no rights to divi
pari passu with the ordinary shares in respect of other distributions and in the event of winding up. These shares c
right to vote at general meetings other than on resolutions concerning acquisitions or disposals of such impor
require shareholder consent, or for the winding up of the Company, or for a variation in the class rights of the
o

Lloyds TSB Group plc has entered into deeds of covenant with the Lloyds TSB Foundations, under the tern
Company makes annual donations to the foundations equal, in total, to 1 per cent of the Group s pre-tax pro

adjustments) averaged over three years. The deeds of covenant can be cancelled by the Company at nir

40 Called-up share capital (continued)

At 31 December 2004, options to acquire 162 million Lloyds TSB Group ordinary shares of 25p each were outstar
executive share option schemes, the share retention plan and the staff sharesave share option schemes exercisa
These include the option, described on page 89, to acquire 216,763 shares under the share retention plan: otherw
are exercisable at prices ranging from 243p to 8

41 Reserves

	2004	2003	20
	£m	£m	£r
Share premium account:			
At 1 January	**1,136**	1,093	95
Premium arising on issue of shares	**9**	43	13
At 31 December	**1,145**	1,136	1,
Merger reserve:			
At 1 January and 31 December	**343**	343	34
Profit and loss account:			
At 1 January	**6,727**	5,091	7,
Exchange and other adjustments	**(11)**	118	(3
Actuarial losses recognised in post-retirement benefit schemes (note 45)	**(166)**	(4)	(2
Movements in relation to own shares (note 43)	**10**	(2)	(7
Goodwill written back on sale of businesses	**3**	181	
Profit (loss) for the year	**507**	1,343	(1
At 31 December	**7,070**	6,727	5,

The profit and loss account reserves at 31 December 2004 include approximately £1 billion (2003: £1 billion; 20
not presently available for distribution representing the Group s share of the value of long-term assurance busi
the surplus retained within the long-term assurance funds. The profit and loss account reserves at 31 December
after including a deficit of £2,231 million relating to the Group s post-retirement defined benefit schemes (2003
2002: £2,077 million) and after deducting £31 million (2003: £39 million; 2002: £43 million) in respect of ov

The cumulative amount of premiums on acquisitions written off against reserves during previous ye
£2,087 million (2003: £2,090 million; 2002: £2,271 million) of which £1,682 million (2003: £1,662
£1,823 million) was within th

The accumulated foreign exchange adjustment at 31 December 2004 reduced reserves by £155 million (2003
2002:

42 Shareholders funds

	2004	2003	2002
	£m	£m	£m
Equity	**9,977**	9,624	7,943
Non-equity			
	9,977	9,624	7,943

Non-equity shareholders funds comprise 400 non-cumulative redeemable preference shares of 25p each w
duri

43 Own shares

The amounts deducted from profit and loss account reserves in respect of own shares, which are held at cost, ar

	2004	2003	20
	£m	£m	£n
Own shares held in relation to employee shares schemes*	**14**	22	26
Lloyds TSB Group interest in shares held by the long-term assurance funds	**17**	17	17
Own shares	**31**	39	43

* Lloyds TSB Group plc sponsors the Lloyds TSB Group Employee Share Ownership Trust, a discretionary trust f of employees and former employees of Lloyds TSB Group. The Company has lent £20.6 million to the trustees, to enable them to purchase Lloyds TSB Group plc ordinary shares, which are used to satisfy options granted by t or to meet commitments arising under other employee share schemes. Under the terms of the trust, the trustees h but a nominal dividend on the shares they hold. At 31 December 2004, 1.5 million shares were held by the truste of £11.5 million (2003: 1.6 million shares with a cost of £12.6 million; 2002: 2 million shares with a cost of £13

Lloyds TSB Group has also established the Lloyds TSB Qualifying Employee Share Ownership Trust (the purpose of providing shares on the exercise of options under certain of the Group s Save As You Earn (SAY schemes. During 2004 Lloyds TSB Group plc made no contributions to the QUEST (2003: nil; 2002: £66 millio did not subscribe for any shares in the Company in 2004 (2003: 6 million shares for a consideration of £26 18 million shares for a consideration of £136 million). At 31 December 2004, 1,364 shares were held by the 0.2 million shares with a cost of £0.7 million; 2002: 1.7 million shares with a cost of £13 million). Under t QUEST s trust deed, the trustees have waived all but a nominal dividend on the s

The Lloyds TSB Group Shareplan (Shareplan) has been established for the purpose of providing an enhan package for employees. The shares are used to provide shares awarded to employees for no consideration, as a salaries by reference to the profits of Lloyds TSB Group, together with partnership shares which are acquired by monthly contributions; and matching shares, which are additional shares awarded for no consideration to emplo partnership shares. At 31 December 2004, 0.5 million shares (2003: 2.2 million shares) were held but not allocate employees by the Shareplan trustees with a cost to the Group of £2.3 million (2003: £9.2 million). The trustees h dividends on the sh

In addition, a further 0.2 million ordinary shares were held by Lloyds TSB Group Holdings (Jersey) Limited a 2004 (2003: 0.4 million shares; 2002: 0.4 million shares). These shares, on which the dividend entitlement ha were gifted to Lloyds TSB Group some years ago at nil cost and are used to satisfy outstanding options or to mee arising under other employee

The long-term assurance funds of Scottish Widows hold 30.5 million shares (2003: 30.5 million shares; 2002: 30 shares) in Lloyds TSB Group plc which were bought prior to the acquisition of Scottish Widows by Lloyds TSB the structure of these funds, Lloyds TSB Group is effectively exposed to the risks and rewards of ownership of o these shares; the risks and rewards of ownership of the remaining nine tenths are borne by the policyholders.

Movements in the amount deducted from reserves in respect of own shares have b

	2004	2003	20
	£m	£m	£n
At 1 January	**39**	43	50
Purchases of, and subscriptions for, shares	**57**	74	18
Use of shares on exercise of employee options and for other employee share plans	**(67)**	(78)	(1
Shares forfeited in the year	**2**		
At 31 December	**31**	39	43

The credit of £10 million to profit and loss account reserves represents the net reduction in the cost of own share
and an increase in the accrual in respect of the free shares to be awarded in respect of Shareplan of £2 million.
£2 million in 2003 represented the loss on transactions in own shares of £10 million less the net reduction in t
shares of £4 million and an increase in the accrual in respect of the free shares to be awarded in respect o
£4 million. The charge of £70 million in 2002 represented the loss on transactions in own shares of £65 million an
the accrual in respect of the free shares to be awarded in respect of Shareplan of £12 million less the net reductio
own shares

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44 Related party transactions

a Transactions, arrangements and agreements involving direct

At 31 December 2004, transactions, arrangements and agreements entered into by the Group s banking subsidiari
and connected persons and with of

	2004 Number of persons	**2004 Total £000**	2003 Number of persons	2003 Total £000
Loans and credit card transactions:				
Directors and connected persons	**4**	**3,217**	6	3,199
Officers	**22**	**6,747**	30	5,355

During 2003 one officer purchased a car from the Group for a total considerat

b Group

Details of the principal group undertakings are given in note 21. In accordance with FRS 8, transactions or balan
entities that have been eliminated on consolidation a

c

Details of the Group s joint ventures are provided in note 20. Information relating to transactions entered into
undertakings and the joint ventures and details of outstanding balances at 31 December 2004 are also sh

d Long-term assur

The Group enters into transactions with its long-term assurance businesses, which cannot be eliminated in th
accounts because of the basis of accounting used for the Group s long-term assurance businesses. After tak
legally enforceable netting agreements, at 31 December 2004 Group entities owed £2,254 million (2003: £1,9
were owed £97 million (2003: £136 million); these amounts are included in customer accounts and loans a
customers respectively. Furthermore Scottish Widows plc has provided £50 million (2003: £30 million) of sub
capital to Scottish Widows Bank plc, which is included in other liabilities. In addition, fees of £201 million (2003
2002: £76 million) were received, and fees of £49 million (2003: £71 million; 2002: £35 million) were pai
distribution, asset management and

Certain administrative properties used by Scottish Widows are owned by the long-term assurance funds. During
Widows paid rent to the long-term assurance funds amounting to £5 million (2003: £5 million; 2002: £5 million))
31 December 2004, the long-term assurance funds owned 30.5 million ordinary shares in the Company (200

e

Group entities provide a number of banking and other services to the Group s pension funds, which are cond
terms to third party transactions. At 31 December 2004, the Group s pension funds had call deposits with Lloy
amounting to £14 million (200

45 Pensions and other post-retirement benefits

The pension costs included in administrative expenses are compri

	2004	2003	2002
	£m	£m	£m
Defined contribution schemes	**32**	33	25
Defined benefit schemes	**306**	320	293
	338	353	318

The majority of the Group s employees are members of the defined benefit sections of Lloyds TSB Group Pensi
1 and 2. During the year ended 31 December 2002, the Group made no contributions to either of these schemes. D
2004, no contributions have been made to the Lloyds TSB Group Pension Scheme No. 2. However, with effect fr
the Group recommenced contributions to the Lloyds TSB Group Pension Scheme No. 1 at a rate of 31.7 per cent
salary; this was increased to 56.5 per cent of pensionable salary with effect from 1 January 2004. Since the
sections of these schemes are now closed to new members and the age profile of the active members is increa
projected unit method, the current service cost will increase as the members of the schemes appro

The latest full valuations of these schemes were carried out as at 30 June 2002; these have been updated to 31 Dec
qualified independent actuaries. The last full valuations of other group schemes were carried out on a number of
these have been updated to 31 December 2004 by qualified independent actuaries or, in the case of the Sc
Retirement Benefits Scheme, by a qualified actuary employed by Sc

45 Pensions and other post-retirement benef

The principal assumptions used in the scheme valuations w

	31 December 2004 %	31 December 2003 %	31 Decer 2002 %
Rate of inflation	**2.60**	2.50	2.30
Rate of salary increases	**4.14**	4.04	3.83
Rate of increase for pensions in payment and deferred pensions	**2.60**	2.50	2.30
Discount rate	**5.30**	5.40	5.60

In addition, the Group operates a number of schemes which provide post-retirement healthcare benefits to cert retired employees and their dependent relatives. The principal scheme relates to former Lloyds Bank staff and und the Group has undertaken to meet the cost of post-retirement healthcare for all eligible former employees (and th who retired prior to 1 January 1996. For retirements subsequent to this date, the Group also met a reducing propor until 31 December 2004, since which date the only obligation is in respect of the pre 1 January 19

Included within other finance income is an interest cost of £4 million (2003: £5 million; 2002: £4 million) in r defined benefit post-retirement healt

For the principal post-retirement healthcare scheme, the latest actuarial valuation of the liability was carried out a 2000; this valuation has been updated to 31 December 2004 by qualified independent actuaries. The principal ass were as set out above, except that the rate of increase in healthcare premiums has been assumed

The assets of the Group s defined benefit schemes and the expected rates of return are summa

	Fair value at 31 December 2004 £m	**Expected long-term rate of return at 31 December 2004 %**	Fair value at 31 December 2003 £m	Expected long-term rate of return at 31 December 2003 %	Fair value at 31 December 2002 £m
Market values of scheme assets:					
Equities	**8,042**	**8.2**	7,454	8.1	7,175
UK fixed interest gilts	**550**	**4.6**	551	4.8	557
UK index linked gilts	**561**	**4.3**	545	4.4	
Sterling non-government bonds	**941**	**5.3**	1,033	5.4	491
Property	**959**	**6.9**	713	7.1	791
Cash	**611**	**3.6**	307	3.5	69
Total fair value of scheme assets	**11,664**		10,603		9,083

Other finance inco

	2004 £m	2003 £m	2002 £m
Expected return on scheme assets	**764**	696	817

Interest cost of scheme liabilities	**(725)**	(662)	(652)
	39	34	165

The pension and other post-retirement benefit cost in respect of defined benefit scher

	2004	2003	2002
	£m	£m	£m
Current service cost	**289**	269	244
Past service costs	**17**	51	49
Defined benefit costs	**306**	320	293

45 Pensions and other post-retirement benef

The amounts recognised in the statement of total recognised gains and lo

	2004	2003	2002
	£m	£m	£m
Actual return less expected return on scheme assets	**369**	802	(2,58
Experience gains and losses arising on scheme liabilities	**(114)**	94	(240
Effect of changes in demographic and financial assumptions	**(492)**	(902)	(477
Actuarial losses recognised	**(237)**	(6)	(3,29
Deferred tax thereon	**71**	2	968
Amount recognised in the statement of total recognised gains and losses	**(166)**	(4)	(2,33

The experience gains and losses recognised can also be analy

	2004	2003	2002
	£m	£m	£m
Actual return less expected return on scheme assets:			
Amount	**369**	802	(2,582)
Percentage of scheme assets at balance sheet date	**3.2%**	7.6%	28.4%
Experience gains and losses arising on scheme liabilities:			
Amount	**(114)**	94	(240)
Percentage of scheme liabilities at balance sheet date	**0.8%**	0.7%	2.0%
Total amount recognised in the statement of total recognised gains and losses:			
Amount	**(237)**	(6)	(3,299)
Percentage of scheme liabilities at balance sheet date	**1.6%**	0.0%	27.5%

The amounts reported on the Group s balance sheet are comp

	2004	2003
	£m	£m
Market value of assets	**11,664**	10,603
Present value of scheme liabilities	**(14,851)**	(13,658)
Deficit in the schemes	**(3,187)**	(3,055)
Related deferred tax asset	**956**	916
Net post-retirement benefit liability	**(2,231)**	(2,139)

The movements in the deficit in the schemes over the last two years have b

	2004	2003
	£m	£m
Deficit at beginning of year	**(3,055)**	(2,931)
Exchange and other adjustments	**(2)**	(4)
Other finance income	**39**	34
Current service costs	**(289)**	(269)
Contributions	**374**	138
Past service costs	**(17)**	(51)
Actuarial loss	**(237)**	(6)
Adjustments on disposal of businesses		34
Deficit at end of year	**(3,187)**	(3,055)

46 Contingent liabilities and

Acceptances and endorsements arise where the Lloyds TSB Group agrees to guarantee payment on a negoti
drawn up

Guarantees include those given on behalf of a customer to stand behind the current obligations of the customer a
those obligations should the custom

Other items serving as direct credit substitutes include standby letters of credit, or other irrevocable obligati
financial guarantees where the Lloyds TSB Group has an irrevocable obligation to pay a third party beneficiary
fails to repay an outstanding commitment; they also include acceptances drawn under letters of credit or similar
the acceptor does not have specific title to an identifiable underlying ship

46 Contingent liabilities and commitmen

Performance bonds and other transaction related contingencies (which include bid or tender bonds, advance paym
VAT Customs & Excise bonds and standby letters of credit relating to a particular contract or non-financial t
undertakings where the requirement to make payment under the guarantee depends on the outcome of

Where guarantees are issued on behalf of customers, Lloyds TSB Group usually holds collateral against the ex
right of recourse t

Lloyds TSB Group s maximum exposure to loss is represented by the contractual nominal amount detailed in
Consideration has not been taken of any possible recoveries from customers for payments made in respect of s
under recourse provisions or from collateral h

	2004	2
	£m	£
Contingent liabilities		
Acceptances and endorsements	**71**	2
Guarantees	**6,786**	6
Other:		
Other items serving as direct credit substitutes	**345**	1
Performance bonds and other transaction-related contingencies	**1,324**	1
Other contingent liabilities		1
	1,669	2
	8,526	9
Commitments		
Documentary credits and other short-term trade-related transactions	**431**	3
Forward asset purchases and forward deposits placed	**1,654**	5
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year maturity	**63,196**	6
1 year or over maturity	**20,009**	1
	85,290	7

47 Derivatives and other financi

Information about the Group s use of financial instruments and management of the associated risks is given o

Derivatives are used to meet the financial needs of customers, as part of the Group s trading activities and t
exposure to fluctuations in interest and exchange rates. The principal derivatives used by the Group are i
exchange rate contracts; particular attention is paid to the liquidity of the markets and products in which the G
ensure that there are no undue concentrations of ac

Interest rate related contracts include interest rate swaps, forward rate agreements and options. An interest
agreement between two parties to exchange fixed and floating interest payments, based upon interest rate
contract, without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the
difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a spec
future. An interest rate option gives the buyer, on payment of a premium, the right, but not the obligation, t
interest on a future loan or deposit, for a specified period and commencing on a specif

Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options. A f
exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future da
rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different

exchange of principal can be notional or actual. A currency option gives the buyer, on payment of a premium, th
the obligation, to sell a specified amount of currency at an agreed rate of exchange on or before a specif

Equity derivatives are also used by the Group as part of its equity based retail product activity to eliminate the G
to fluctuations in various international stock exchange indices. Index-linked equity options are purchased which
the right, but not the obligation, to buy or sell a specified amount of equities, or basket of equities in the for
indices on or before a specif

Derivative contracts expose the Group to both market risk and credit risk. Only a few highly specialist trading ce
Group are permitted to enter into derivative contracts and the level of exposure to interest rate and exchange rate r
other market variables is strictly controlled and monitored within a

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47 Derivatives and other financial instrumen

Unlike on-balance sheet instruments the principal amount of the contract does not represent the Group s real e
risk which is limited to the current cost of replacing contracts with a positive value to the Group, should the count
To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collatera
security is provided agains

The notional principal amounts and fair values (which, after netting, are the carrying values) of trading instrume
with third parties w

31 December 2004	Notional principal amount £m	Fair value assets £m	Fair value liabilities £m
Exchange rate contracts:			
Spot, forwards and futures	**113,601**	**1,995**	**2,632**
Currency swaps	**11,386**	**426**	**581**
Options purchased	**2,059**	**44**	
Options written	**1,922**		**41**
	128,968	**2,465**	**3,254**
Interest rate contracts:			
Interest rate swaps	**275,547**	**3,118**	**3,631**
Forward rate agreements	**62,797**	**28**	**24**
Options purchased	**9,679**	**78**	
Options written	**7,430**		**163**
Futures	**48,278**		
	403,731	**3,224**	**3,818**
Equity and other contracts	**4,239**	**282**	**19**
Effect of netting		**(3,956)**	**(3,956)**
Balances arising from off-balance sheet financial instruments		**2,015**	**3,135**

31 December 2003	Notional principal amount £m	Fair value assets £m	Fair value liabilities £m
Exchange rate contracts*:*			
Spot, forwards and futures	76,368	1,669	2,127
Currency swaps	10,329	328	511
Options purchased	1,678	55	14
Options written	1,542		39
	89,917	2,052	2,691
Interest rate contracts:			
Interest rate swaps	236,956	3,346	4,006
Forward rate agreements	54,213	29	29
Options purchased	10,475	145	
Options written	5,265		162
Futures	38,626		
	345,535	3,520	4,197

Equity and other contracts	5,407	693	387
Effect of netting		(3,776)	(3,776)
Balances arising from off-balance sheet financial instruments		2,489	3,499

47 Derivatives and other financial instrume

Through intra company and intra group transactions, Group companies establish non-trading derivatives pos
Group s independent trading operations, which then enter into similar positions with third parties. The notional p
and fair values of non-trading instruments entered into with third parties w

31 December 2004	Notional principal amount £m	Fair value assets £m	Fair value liabilities £m
Exchange rate contracts:			
Spot, forwards and futures	**155**	**3**	**3**
Currency swaps	**60**	**2**	
Options purchased	**1**		
	216	**5**	**3**
Interest rate contracts:			
Interest rate swaps	**34,196**	**143**	**350**
Forward rate agreements	**2,921**	**6**	
Options written	**111**		
	37,228	**149**	**350**
Effect of netting		**(123)**	**(123)**
		31	**230**

31 December 2003	Notional principal amount £m	Fair value assets £m	Fair value liabilities £m
Exchange rate contracts:			
Spot, forwards and futures	171	13	5
Currency swaps	459	28	10
	630	41	15
Interest rate contracts:			
Interest rate swaps	30,816	256	260
Forward rate agreements	7,188	1	1
Options written	40		
	38,044	257	261
Effect of netting		(165)	(165)
		133	111

The aggregate carrying value of non-trading derivatives with a positive fair value was an asset of £96 million (20
£132 million) and with a negative fair value was a liability of £35 million (2003: a liability c

47 Derivatives and other financial instrumer

The maturity of the notional principal amounts and replacement cost of both trading and non-trading instrumer
with thi

	Under 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
31 December 2004				
Exchange rate contracts				
Notional principal amount	**117,027**	**8,143**	**4,014**	**129,184**
Replacement cost	**2,015**	**179**	**276**	**2,470**
Interest rate contracts				
Notional principal amount	**224,427**	**165,274**	**51,258**	**440,959**
Replacement cost	**521**	**1,426**	**1,426**	**3,373**
Equity and other contracts				
Notional principal amount	**583**	**3,358**	**298**	**4,239**
Replacement cost	**6**	**258**	**18**	**282**
Total				
Notional principal amount	**342,037**	**176,775**	**55,570**	**574,382**
Replacement cost	**2,542**	**1,863**	**1,720**	**6,125**
31 December 2003				
Exchange rate contracts				
Notional principal amount	79,677	7,005	3,865	90,547
Replacement cost	1,753	141	199	2,093
Interest rate contracts				
Notional principal amount	175,306	161,584	46,689	383,579
Replacement cost	578	1,660	1,539	3,777
Equity and other contracts				
Notional principal amount	2,886	1,965	556	5,407
Replacement cost	523	115	55	693
Total				
Notional principal amount	257,869	170,554	51,110	479,533
Replacement cost	2,854	1,916	1,793	6,563

The notional principal amount does not represent the Group s real exposure to credit risk, which is limited to th
replacing contracts at current market rates should the counter

Net replacement cost represents the total positive fair value of all derivative contracts at the balance sheet date, aft
the offset of all negative fair values where the Group has a legal right of set-off with the counterpa

An analysis of the net replacement cost of both trading and non-trading instruments entered into with
counterparty type is set out below; the Group s exposure is further reduced by qualifying

	2004 £m	2003 £m
OECD banks	**855**	1,272
Other	**1,191**	1,350
Net replacement cost	**2,046**	2,622
Qualifying collateral held	**(592)**	(416)
Potential credit risk exposure	**1,454**	2,206

47 Derivatives and other financial instrume

b Interest rate sensitivity gap analysis for the non

The table below summarises the repricing mismatches of the Group s non-trading assets and liabilities. Items are bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. The tabl into account the effect of interest rate options used by the Group to hedge its exposure; details of options are giv

31 December 2004	3 months or less £m	6 months or less but over 3 months £m	1 year or less but over 6 months £m	5 years or less but over 1 year £m	Over 5 years £m	Non-interest bearing £m	Trading book £m
Assets							
Treasury bills and other eligible bills	**43**	**40**		**5**			**4**
Loans and advances to banks	**19,663**	**1,351**	**154**	**470**	**82**	**602**	**1,243**
Loans and advances to customers	**99,216**	**6,443**	**6,937**	**36,783**	**6,203**	**(1,655)**	**313**
Debt securities and equity shares	**8,193**	**1,009**	**770**	**1,976**	**2,527**	**(68)**	**11,002**
Other assets	**121**			**5**	**1**	**17,375**	**4,271**
Total assets	**127,236**	**8,843**	**7,861**	**39,239**	**8,813**	**16,254**	**16,833**
Liabilities							
Deposits by banks	**36,802**	**2,009**	**289**	**122**	**81**	**212**	**223**
Customer accounts	**109,563**	**1,083**	**823**	**5,639**	**538**	**3,825**	**591**
Debt securities in issue	**18,764**	**1,848**	**1,171**	**1,435**	**3,999**		
Other liabilities	**292**					**9,008**	**5,937**
Subordinated liabilities loan capital	**1,698**	**458**		**1,884**	**6,212**		
Minority interests and shareholders funds						**10,550**	**23**
Internal funding of trading business	**(6,577)**	**635**	**129**	**(3,330)**	**(916)**		**10,059**
Total liabilities	**160,542**	**6,033**	**2,412**	**5,750**	**9,914**	**23,595**	**16,833**
Off-balance sheet items	**13,254**	**(3,902)**	**(2,424)**	**(9,468)**	**2,540**		
Interest rate repricing gap	**(20,052)**	**(1,092)**	**3,025**	**24,021**	**1,439**	**(7,341)**	
Cumulative interest rate repricing gap	**(20,052)**	**(21,144)**	**(18,119)**	**5,902**	**7,341**		

31 December 2003	3 months or less £m	6 months or less but over 3 months £m	1 year or less but over 6 months £m	5 years or less but over 1 year £m	Over 5 years £m	Non-interest bearing £m	Trading book £m
Assets							
Treasury bills and other eligible bills	408	48	65	6	3		9
Loans and advances to banks	10,686	1,311	463	746	86	366	1,889
Loans and advances to customers	88,298	4,680	5,549	30,777	6,171	(1,648)	1,424

Debt securities and equity shares	8,718	606	279	1,856	2,372	(55)	15,351
Other assets	101		16	8		16,058	5,287
Total assets	108,211	6,645	6,372	33,393	8,632	14,721	23,960
Liabilities							
Deposits by banks	22,254	635	262	286	99	205	214
Customer accounts	104,236	705	876	5,227	1,173	3,686	593
Debt securities in issue	18,375	1,507	1,040	1,210	3,790		
Other liabilities	300					8,108	6,348
Subordinated liabilities loan capital	2,088	1,086		910	6,370		
Minority interests and shareholders funds						10,333	18
Internal funding of trading business	(11,528)	(810)	(412)	(3,217)	(820)		16,787
Total liabilities	135,725	3,123	1,766	4,416	10,612	22,332	23,960
Off-balance sheet items	6,930	(1,365)	(4,049)	(2,596)	1,080		
Interest rate repricing gap	(20,584)	2,157	557	26,381	(900)	(7,611)	
Cumulative interest rate repricing gap	(20,584)	(18,427)	(17,870)	8,511	7,611		

47 Derivatives and other financial instrume

c Fair

Financial instruments include financial assets, financial liabilities and derivatives. The fair value of a financial in
amount at which the instrument could be exchanged in a current transaction between willing parties, other tha
l

Wherever possible, fair values have been estimated using market prices for instruments held by the Group. Wher
are not available, fair values have been estimated using quoted values for instruments with characteristics eit
similar to those of the instruments held by the Group. In certain cases, where no ready markets currently exist, vari
(such as discounted cash flows, or observations of similar recent market transactions) have been developed to es
approximate fair value of such instruments might be. These estimation techniques are necessarily subjectiv
involve sever

The fair values presented in the following table are at a specific date and may be significantly different from the
will actually be paid or received on the maturity or s

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair
financial institutions may not be meaningful. Readers of these accounts are thus advised to use caution when us
evaluate the Group s fi

Fair value information is not provided for items that do not meet the definitions of a financial instrument. Thes
intangible assets, such as the value of the Group s branch network, the long-term relationships with deposito
relationships, premises and equipment and shareholders equity. These items are material and accordingly the Gr
the fair value information presented does not represent the underlying valu

The valuation technique for each major category of financial instrument is di

Treasury bills and oth

Fair value is estimated using market prices, w

Loans and advances to banks

The Group provides loans and advances to commercial, corporate and personal customers at both fixed and var
carrying value of the variable rate loans and those relating to lease financing is assumed to be their fair value
lending, several different techniques are used to estimate fair value, as considered appropriate. For commerci
customers, fair value is principally estimated by discounting anticipated cash flows (including interest at cont
market rates for similar loans offered by the Group and other financial institutions. The fair value for corp
estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjus
in credit risk. Certain loans secured on residential properties are made at a fixed rate for a limited period, typic
years, after which the loans revert to the relevant variable rate. The fair value of such loans has been estimated
the market rates for similar loans of maturity equal to the remaining fixed inte

Debt securities and equity shares held for invest

Listed investment securities are valued at quoted mid-market prices. Unlisted securities and equity shares are v
discounted cash flows, market prices of similar securities and other appropriate valua

Deposits by banks and cust

The fair value of deposits repayable on demand is considered to be equal to their carrying value. The fair va
deposits and customer accounts was estimated using discounted cash flows applying either market rates, wher
current rates for deposits of similar remai

Debt securities in issue and subordin

The fair value of short-term debt securities in issue is approximately equal to their carrying value. Fair valu
securities and for subordinated liabilities is estimated using quoted

Financial commitments and contin

The Group considers that, given the lack of an established market, the diversity of fee structures and the difficult
the value of the instruments from the value of the overall transaction, it is not meaningful to provide an estimate o
of financial commitments and contingent liabilities. These are therefore excluded from the f

The table below shows a comparison by category of book values and fair values of the Group s on-balance shee

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47 Derivatives and other financial instrumen

31 December 2004	Trading book Book value £m	Trading book Fair value £m	Non-trading book Book value £m	Non-tra Fair va £m
Assets				
Treasury bills and other eligible bills	**4**	**4**	**88**	**90**
Loans and advances to banks and customers	**1,556**	**1,556**	**176,249**	**176,71**
Debt securities and equity shares	**11,002**	**11,002**	**14,407**	**14,443**
Liabilities				
Deposits by banks and customers	**814**	**814**	**160,986**	**160,95**
Debt securities in issue			**27,217**	**26,924**
Subordinated liabilities			**10,252**	**11,544**

31 December 2003	Trading book Book value £m	Trading book Fair value £m	Non-trading book Book value £m	Non-tra Fair va £m
Assets				
Treasury bills and other eligible bills	9	9	530	523
Loans and advances to banks and customers	3,313	3,313	147,485	148,87
Debt securities and equity shares	15,351	15,351	13,776	13,885
Liabilities				
Deposits by banks and customers	807	807	139,644	139,69
Debt securities in issue			25,922	26,254
Subordinated liabilities			10,454	11,684

The disclosures in this note cover all on-balance sheet financial instruments; fair values of all derivative i disclos

Fair values are determined by reference to quoted market prices or, where no market price is available, using i which discount expected future cash flows at prevailin

Fair values have not been calculated for sundry debtors and creditors in th

d Curre

Structural curre

The Group s main overseas operations are in the Americas and Europe. Details of the Group s structura exposures

	2004	2003
Functional currency of Group operations	**£m**	£m
Euro	**289**	287
US dollar	**271**	255
Swiss franc	**58**	104
Other non-sterling	**202**	200
	820	846

Non-structural curre

All foreign exchange exposures in the non-trading book are transferred to the trading area where they are

Information about the management of market risk in the Group s trading activities is given or

e Unrecognised gains and losses on hedgin

The Group uses a variety of financial instruments to hedge exposures in its banking book; these hedges are acco
accruals basis, in line with the underlying instruments being hedged. Any gains or losses that would occur if the
were carried at market value are therefore

47 Derivatives and other financial instrumer

At 31 December 2004, the unrecognised gains on financial instruments used for hedging were £272 million (2003
and unrecognised losses were £424 million (2003:

The net gains arising in 2003 and earlier years and recognised in 2004 amounted to £3 million. Net losses of £22
in 2004 but were not recogni

Of the net losses of £152 million at 31 December 2004, £49 million of net losses are expected to be recognised in t
31 December 2005 and £103 million of net losse

f Value at risk in tra

Details of value at risk in the Group s global trading activities are g

4

During the year ended 31 December 2003, the Group completed the acquisition of the credit card and personal loa
Goldfish Bank Limited, together with the Goldfish brand and loyalty programme, for a consideration of £1,096 mi
cash. The premium arising of £96 million from the effective payment to the majority shareholder was capitalis
written off to the profit and loss account over its estimated useful life of 10 years. No significant fair value ad

During the year ended 31 December 2002, the Group s asset finance operations completed the acquisitions
Vehicle Holdings and Abbey National Vehicle Finance, both previously wholly owned subsidiaries of Abb
operating in the UK contract hire and fleet management market, and the business of the Dutton-Forshaw Group, a
number of fair value adjustments were made in respect of these acquisitions. In addition the Group s retail operati
business of Accucard, a credit card technology development and marketing company. Premiums on acqu
£103 million were capitalised and are being written off to the profit and loss account over their estimated useful li
payments totalling £103 million were made in 2002; during 2003 a refund of £5 million was received in respect o
Vehicle Holdings and Abbey National Vehicle Finance, following agreement of the completion accounts; and fu
of £1 million were made in respect of the Accucard business in each of

49 Consolidated cash f

The cash flow statement reflects cash flows attributable to the banking, life and general insurance businesses. C
long-term assurance business attributable to the shareholder include the surplus emerging from the life and pens
Income from long-term assurance business reflects the movement in the value of long-term assurance business
shareholder (see note 29) as adjusted for dividends. Cash flows relating to the long-term assurance business
policyholders are not reflected within

a Reconciliation of operating profit to net cash inflow from opera

	2004	2003	2002
	£m	£m	£m
Operating profit	**3,508**	3,505	2,629
(Increase) decrease in prepayments and accrued income	**(721)**	147	(21)
Increase (decrease) in accruals and deferred income	**732**	(226)	113
Provisions for bad and doubtful debts	**866**	950	1,029
Net advances written off	**(854)**	(967)	(675)
Insurance claims	**224**	236	233
Insurance claims paid	**(203)**	(231)	(210)
Customer remediation provision	**100**	200	
Customer remediation paid	**(105)**	(119)	
Amounts written off fixed asset investments	**52**	44	87
Income from long-term assurance business	**(715)**	(453)	294
Net charge in respect of defined benefit schemes	**267**	286	128
Contributions to defined benefit schemes	**(374)**	(138)	(37)
Interest on subordinated liabilities (loan capital)	**601**	622	537
Profit on disposal of investment securities	**(126)**	(47)	(160)
Depreciation and amortisation	**633**	697	701
Other non-cash movements	**(3)**	(131)	(120)
Net cash inflow from trading activities	**3,882**	4,375	4,528
Net increase in loans and advances	**(28,921)**	(11,710)	(11,970)
Net decrease (increase) in investments other than investment securities	**3,981**	248	(2,494)
Net decrease (increase) in other assets	**956**	816	(685)
Net increase (decrease) in deposits by banks	**15,864**	(1,000)	1,018
Net increase in customer accounts	**6,121**	7,658	6,900
Net increase in debt securities in issue	**1,859**	685	5,904
Net (decrease) increase in other liabilities	**(115)**	(645)	1,511
Net (increase) decrease in items in course of collection/transmission	**(13)**	169	147
Other non-cash movements	**(145)**	176	535
Net cash inflow from operating activities	**3,469**	772	5,394

b Analysis of cash as shown in the

	2004	2003	2002
	£m	£m	£m
Cash and balances with central banks	**1,078**	1,195	1,140
Loans and advances to banks repayable on demand	**2,477**	3,768	4,313
	3,555	4,963	5,453

The Group is required to maintain balances with the Bank of England which, at 31 December 2004, amounted t
(2003: £177 million; 2002:

c Analysis of changes in cash d

	2004	2003
	£m	£m
At 1 January	**4,963**	5,453
Net cash (outflow) inflow before adjustments for the effect of foreign exchange movements	**(1,403)**	(487)
Effect of foreign exchange movements	**(5)**	(3)
At 31 December	**3,555**	4,963

49 Consolidated cash flow statem

d Analysis of changes in financing during the year	2004 £m	2003 £m	2002 £m
Share capital (including premium and merger reserve):			
At 1 January	**2,897**	2,852	2,713
Issue of share capital	**10**	45	139
At 31 December	**2,907**	2,897	2,852

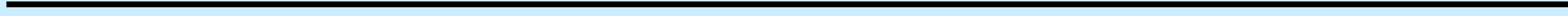
The amounts shown as cash inflows from financing include proceeds in respect of the above issues of share capit a net cash inflow of £1 million (2003: outflow of £13 million; 2002: outflow of £62 million) relating to tran shares held in respect of employee

	2004 £m	2003 £m	2002 £m
Equity minority interests:			
At 1 January	**44**	37	37
Exchange and other adjustments		(1)	(1)
Minority share of profit after tax	**26**	22	19
Dividends paid to minority shareholders	**(24)**	(14)	(18)
At 31 December	**46**	44	37

	2004 £m	2003 £m	2002 £m
Non-equity minority interests:			
At 1 January	**683**	694	509
Exchange and other adjustments	**1**	23	18
Capital invested by minority shareholders			167
Repayment of capital to minority shareholders	**(132)**		
Minority share of profit after tax	**42**	47	43
Payments to minority shareholders	**(44)**	(81)	(43)
At 31 December	**550**	683	694

	2004 £m	2003 £m	2002 £m
Subordinated liabilities and finance leases:			
At 1 January	**10,454**	10,169	8,111
Exchange and other adjustments	**(137)**	34	(5)
Issue of subordinated liabilities	**699**	533	2,120
Repayments of subordinated liabilities	**(764)**	(75)	(55)
Lease financing	**7**		
Finance lease capital repayments	**(1)**	(1)	(4)
Adjustments on acquisition			2
Adjustments on disposal		(206)	
At 31 December	**10,258**	10,454	10,169

e Acquisition of group undertakings and businesses	2004 £m	2003 £m
Cash consideration paid (see f)		1,096
Payments to former members of Scottish Widows Fund and Life Assurance Society acquired during 2000	**15**	14
Cash consideration refunded in respect of acquisition in 2002		(5)
Deferred consideration in respect of acquisition in 2002	**1**	1
Net cash outflow	**16**	1,106



49 Consolidated cash flow statem

f Acquisition of group undertakings	**2004** **£m**	2003 £m	2002 £m
Net assets acquired:			
Loans and advances		993	66
Other assets		18	137
Tangible fixed assets		2	384
Deposits by banks, customer accounts and other liabilities		(13)	(590)
		1,000	(3)
Goodwill arising on consolidation		96	103
		1,096	100

The consideration of £1,096 million for the 2003 acquisitions was settled in cash in 2003; £103 million was paid in respect of the 2002 acquisitions, a refund of £5 million was received in 2003 and deferred payments of £1 mill in each of 2003 and 2004

g Disposal of group undertakings and businesses	**2004** **£m**	2003 £m	2002 £m
Cash	**46**	52	
Loans and advances to banks	**132**	1,035	
Loans and advances to customers	**257**	13,770	
Debt securities and treasury bills	**59**	852	
Intangible assets	**10**	189	
Deposits by banks	**(42)**	(519)	
Customer accounts	**(327)**	(8,372)	
Debt securities in issue	**(111)**	(5,108)	
Subordinated liabilities		(206)	
Other net assets (liabilities)	**9**	(305)	
Goodwill written back on sale of businesses	**3**	181	
	36	1,569	
(Loss) profit on sale	**(15)**	865	
Cash consideration received	**21**	2,434	
Cash disposed of	**(46)**	(52)	
Net cash (outflow) inflow from disposals	**(25)**	2,382	

50 Differences between UK GAAP a

The accounts presented in this report have been prepared in accordance with accounting principles generally United Kingdom (UK GAAP). These differ in significant respects to the accounting principles generally accepte States (US GAAP). The following is a summary of significant differences applicabl

UK GAAP	US GAAP
Business combinations	
UK GAAP permits merger accounting for business combinations where all of the following criteria are met: (1) no party is either portrayed as acquirer or acquired; (2) all parties participate in establishing the management structure; (3) one party does not dominate by virtue of its relative size; (4) consideration received by the equity shareholders of each party, in relation to their equity shareholding, comprises primarily equity shares in the combined entity; and (5) no equity shareholder retains any material interest in only part of the combined entity. Business combinations that do not satisfy all these criteria must be accounted for using acquisition accounting.	Following the implementation of Statement of F Accounting Standards (SFAS) No. 141 Busines Combinations , which supersedes Accounting P (APB) Opinion No. 16 Business Combinations method must be used for all business combinatio after 30 June 2001. For business combinations in 1 July 2001, APB Opinion No. 16 required that a combination be accounted for as a pooling-of-int previously independent entities combined as a re entity issuing common stock in exchange for sub the common stock of the second entity. However offer may include provisions to distribute cash fo shares or shares held by dissenting shareholders, include a pro-rata distribution of cash or other co addition, no changes in the equity interests of the stock may be made prior to the pooling in conter transaction and neither may the ratio of the inter individual common stockholder to those of other stockholders in a combining company change as exchange of stock.
Goodwill/customer related intangibles	
Following the implementation of Financial Reporting Standard (FRS) 10 Goodwill and intangible assets in 1998, goodwill arising on acquisitions of or by group and associated undertakings is capitalised and amortised over its estimated life. There is a presumption that the estimated life is limited to 20 years or less, although this may be rebutted and a longer or indefinite useful life considered. The directors consider that it is appropriate to assign an indefinite life to the goodwill which arose on the acquisition of Scottish Widows during 2000 in view of the strength of the Scottish Widows brand, developed through over 185 years of trading, and the position of the business as one of the leading providers of life, pensions, unit trust and fund management products; consequently it is not being amortised, however it is subject to annual impairment testing. For acquisitions prior to 1 January 1998 goodwill was charged directly against reserves as permitted by Statement of Standard Accounting Practice 22. This goodwill was not reinstated following the implementation of FRS 10, but in the event of a subsequent disposal it will be written back and included in the calculation of the profit or loss on disposal.	Following the implementation in full of SFAS N Goodwill and Other Intangible Assets on 1 Ja goodwill arising on all acquisitions by group and undertakings is capitalised but no longer amortis subject to regular review for impairment. Prior to of SFAS No. 142, the Group accounted for good provisions of APB No. 17 Intangible Assets v that all goodwill be capitalised and amortised ov estimated useful life, which should not exceed 40 Group amortised goodwill over periods of up to Goodwill amortised prior to the adoption of SFA not permitted to be reinstated.
UK GAAP does not require a value to be placed upon the customer relationships in acquisitions.	For acquisitions occurring on or after 1 July 200 141 requires that, when assessing the value of th acquired entity, certain identifiable intangible as recognised. Such identifiable intangible assets in representing the value of customer relationships, capitalised separately and amortised through the statement over the estimated average life of the c relationships. Prior to 1 July 2001, the Group app provisions contained within SFAS No. 72 Acco Certain Transactions of Bank and Thrift Instituti assessing the value of assets of an acquired finan institution.

50 Differences between UK GAAP and US GA

UK GAAP	US GAAP
Pension costs	
For defined benefit schemes, pension costs in the profit and loss account reflect the cost of accruing benefits for active employees, benefit improvements and the cost of severances borne by the schemes; the expected return on scheme assets, net of a charge in respect of the unwinding of the discount applied to scheme liabilities, is included in the profit and loss account as other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised as they arise, net of deferred tax, in the statement of total recognised gains and losses. Scheme assets are assessed at fair value and scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. The overall surplus or deficit is included on the balance sheet, net of the related deferred tax.	SFAS No. 87 Employers Accounting for Pens similar method but allows that a certain portion o gains and losses be deferred and allocated in equ over the average remaining service lives of the c employees. In addition, if the fair value of plan a below the accumulated benefit obligation (which value of accrued benefits without allowance for increases) an additional minimum liability must An equal amount should be recognised as an inta up to the amount of any unrecognised prior servi amount not recognised as an intangible asset is r other comprehensive income, net of deferred tax
Costs in relation to defined contribution schemes are charged to the profit and loss account in the period in which they fall due.	US GAAP also requires a transition adjustment f schemes in place before the introduction of SFA difference between the funded status of the sche total amount of accrued or prepaid pension cost, transition, is amortised over the average remaini lives of employees at that date.
Leasing	
Finance lease income is recognised in proportion to the funds invested in the lease using a method that results in a constant rate of return on the net cash investment, which takes into account tax payments and receipts.	The application of SFAS No. 13 Accounting fo rise to a level rate of return on the investment in without taking into account tax payments and re results in income being recognised in different p under UK GAAP.
Operating lease assets are depreciated such that rentals less depreciation are recognised at a constant periodic rate of return on the net cash invested in that asset.	Operating lease assets are depreciated such that t depreciation charge is at least equal to that which on a straight line basis.
Profits or losses arising on sale and leasebacks are taken to profit as they arise.	Under SFAS No. 28 Accounting for Sales with profits or losses arising on a sale and leaseback a and amortised. For leasebacks resulting in a fina amounts are amortised in proportion to the amor leased asset; for leasebacks resulting in an opera amounts are amortised in proportion to the gross to expense over the lease term.
Property	
Depreciation is charged on the cost of freehold and long leasehold properties over their estimated useful economic lives. Following the adoption of FRS 15, the Group reassessed the useful economic lives and residual values of its freehold and long leasehold premises and, with effect from 1 January 2000, the cost of these properties, after deducting the value of the land, is being depreciated over 50 years. Previously it was considered that the residual values were such that depreciation was not significant.	Freehold and long leasehold properties are inclu balance sheet at historical cost and depreciated o estimated useful economic lives from the date of
Share compensation schemes	
No cost is recognised for the Group s Save-As-You-Earn schemes as these are exempt under UITF17. For other share schemes, the difference between the market price and exercise	The Group accounts for share compensation sch their estimated fair values at the date of the gran with SFAS No. 123 Accounting for Stock Base

price at the date of grant is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit.	Compensation .

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50 Differences between UK GAAP and US GA

UK GAAP	US GAAP
Computer software developed or obtained for internal use	
All computer software costs are expensed as incurred except for operating software and application software relating to separable new systems, which are capitalised and depreciated over their estimated useful lives. All enhancements are expensed as incurred.	The American Institute of Certified Public Acco (AICPA) Statement of Position 98-1 Accountin of computer software developed or obtained for requires certain costs incurred from 1 January 19 of software developed for internal use to be capi subsequently amortised. This includes enhancem existing systems which add additional functional
Derivatives	
Derivatives used in the Group s trading activities are carried at fair value and all changes in fair value are reported within dealing profits in the profit and loss account. Derivatives used in the Group s non-trading activities are accounted for on an accruals basis, in line with the treatment of the underlying items which they are hedging. A derivative will only be classified as a hedge in circumstances where there was adequate evidence of the intention to hedge at the outset of the transaction and the derivative substantially matches or eliminates the exposure being hedged. Derivatives embedded within financial instruments are not required to be separately analysed.	SFAS No. 133 Accounting for Derivative Instr Hedging Activities requires that all derivatives on-balance sheet at fair value. Changes in the fai derivatives that are not hedges are reported in th statement. For derivatives which are hedges, dep nature of the hedge, changes in the fair value of will either be offset against the change in fair va hedged assets, liabilities, or firm commitments t earnings or recognised in other comprehensive in the hedged item is recognised in earnings. The in portion of a hedge s change in fair value is imm recognised in earnings. A derivative will only be hedge providing an entity meets stringent qualify respect of documentation and hedge effectivenes SFAS No. 133 further requires a derivative that i within a financial instrument to be separated fro contract and fair valued if it is not deemed to be closely related to the host. If the derivative cann separated, SFAS No. 133 requires the entire inst fair valued.
Foreign currency translation	
The assets, liabilities and results of the Group s overseas operations are translated into sterling at the rate of exchange prevailing at the balance sheet date, as permitted under UK GAAP.	Under SFAS No. 52 Foreign Currency Translat currency assets and liabilities are translated at th rate; however, results are translated at the averag year.
Investment securities	
Debt securities and equity shares intended for use on a continuing basis by the Group are treated as investment securities and included in the balance sheet at cost as adjusted for the amortisation of any premiums and discounts arising upon acquisition, less provision for any permanent diminution in value.	SFAS No. 115 Accounting for Certain Investm Equity Securities requires that debt securities w available-for-sale (where there is the absence intent or the ability to hold them to maturity) and with a readily determinable market value should fair value with unrealised gains and losses reflec shareholders equity. All debt securities held as available-for-sale are subject to assessment for o temporary impairment in accordance with SFAS for asset backed securities, in accordance with th Issues Task Force (EITF) Abstract No. 99-20 F Interest Income and Impairment on Purchased an Beneficial Interests in Securitised Financial Asse
Dividends payable	
Dividends declared after the period end are recorded in the period to which they relate.	Dividends are recorded in the period in which th declared.
Acceptances	
Acceptances are not recorded on the balance sheet.	Acceptances and the related customer liabilities on the balance sheet.

50 Differences between UK GAAP and US GA

UK GAAP	US GAAP
Own shares	
Own shares held are deducted from equity. Own shares that are held by the Group s long-term assurance funds are recognised to the extent of the shareholder s interest, which is 10 per cent.	All own shares held are reclassified as Treasury deducted from shareholders equity in accordan AICPA Accounting Research Bulletin (ARB) N Consolidated Financial Statements .
Deferred tax	
Deferred tax is provided for all timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is provided based on the rates that have been enacted or have been substantially enacted.	Under SFAS No. 109 Accounting for Income T tax assets and liabilities are recorded for all temp differences. A valuation allowance is recorded a deferred tax asset where it is more likely than no portion of the deferred tax asset will not be realis tax is provided on enacted tax rates. SFAS No. 1 provisions to be raised on the portion of unremit earnings that are not considered to be permanent in the foreign subsidiary.
Provision for credit losses	
A specific provision is made to cover the estimated loss as soon as the recovery of an outstanding loan is considered doubtful. Provisions are calculated as the difference between the carrying value of loans and the expected recoverable amount; no allowance is made for the time value of money. General provisions are raised to cover losses incurred but not yet identified as of the balance sheet date.	SFAS No. 114 Accounting by Creditors for Im Loan requires the overall credit risk provision t based upon the present value of expected future discounted at the loan s effective interest rate o expedient, on the loan s observable market valu value of the collateral if the loan is collateral dep Smaller balance homogeneous consumer loans t collectively valued for impairment are outside th SFAS No. 114, as are debt securities and leases. provisions are made against such loans when los incurred but not yet identified as of the balance s
Consolidation of special purpose vehicles	
Entities that fall within the definition of quasi-subsidiaries as set out in FRS5 have been consolidated. A quasi-subsidiary is defined as an entity which, although it does not fulfil the definition of a subsidiary, is directly or indirectly controlled by Lloyds TSB Group.	FIN 46-R requires the consolidation of variable i (VIEs) for which Lloyds TSB Group is deemed t primary beneficiary. A more detailed discussion be found on pages F-84 to F-85.
Insurance activities	
The shareholder s interest in the long-term assurance fund is valued at the net present value of the profits inherent in such policies.	The net present value of the profits inherent in th the long-term assurance fund is not recognised. is made for the amortisation of acquisition costs Additional information on the differences betwe US accounting for insurance activities is provide Insurance section of this note on pages F-86 to F

Current and future accounting

AICPA Statement of Position (SOP) 03-1 Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Sep

SOP 03-1 was issued in July 2003 and provides guidance on accounting and reporting by insurance enterp non-traditional long-duration contracts and for separate accounts. The SOP became effective for Lloyds T 1 January 2004 and has been adopted on a prospective ba

EITF 03-1 The meaning of Other-Than-temporary Impairment and its Application to Ce

The EITF Issue 03-1 (EITF 03-1) provides guidance on recognising other-than-temporary impairments on securiti
either available-for-sale or held-to-maturity under SFAS 115 and for investments accounted for under the amortise
In September 2004, the FASB issued FASB Staff Position (FSP) EITF 03-1-1 which delayed the effective dat
until the FASB staff addresses additional measurement issues affecting

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50 Differences between UK GAAP and US GA

AICPA SOP 03-3 Accounting for Certain Loans or Debt Securities Acqui

SOP 03-3 was issued in December 2003 and provides guidance on the accounting for differences between expected cash flows from a purchaser s initial investment in loans or debt securities acquired in a transfer if thos attributable to credit quality. The SOP is effective for loans acquired in fiscal years beginning after 15 December of this SOP is not expected to have a material impact on Lloyds TSB Group s US GAAP fina

SAB 105 Application of Accounting Principles to Lo

In March 2004, the SEC issued Staff Accounting Bulletin No. 105 (SAB 105). The SAB addresses the initial measurement of loan commitments that meet the definition of a derivative. The SAB is effective for all commitments entered into, or substantially modified, on or after 1 April 2004. The adoption of SAB 105 did not impact on Lloyds TSB Group s US GAAP fina

SFAS 123 (Revised 2004) Share

On 16 December 2004, the FASB issued Statement 123(R), effective as of the first interim or annual reporting per after 15 June 2005; this effective date has been amended for SEC registrants to the beginning of the fiscal year beg June 2005. Statement 123(R) replaces SFAS No. 123, Accounting for Stock-Based Compensation, supersedes AP 25, Accounting for Stock Issued to Employees, and covers a wide range of share-based compensation arrangem share options, restricted share plans, performance-based awards, share appreciation rights, and employee share As Lloyds TSB Group has already elected to follow the fair value method encouraged by SFAS 123 in its US statements, adoption of this Statement is not expected to have a n

SFAS 153 Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonet

In December 2004, the FASB issued SFAS No. 153 which is effective for nonmonetary asset exchanges occ periods beginning after 15 June 2005. This Statement provides for a general exception from fair value m exchanges of non-monetary assets that do not have commercial substance. Adoption of this Statement is not exp material impact on Lloyds TSB Group s US GAAP fina

FSP FIN46(R)-5 Implicit Variable Interests under FASB Interpretation No. 46(R) Consolidation of Variable

FSP FIN46(R)-5 was issued in March 2005 and addresses whether a reporting entity has an implicit variable intere interest entity or potential variable interest entity when specific conditions exist. Implicit variable interests are im interests in an entity that change with changes in the fair value of the entity s net assets exclusive of variable inter effective for the first reporting period beginning after 3 March 2005. Adoption is not expected to have a mat Lloyds TSB Group s US GAAP fina

SFAS 154 Accounting Changes and Error Correction a replacement of APB Opinion No.20 and FAS

SFAS 154 was issued in May 2005 and is effective for accounting changes and corrections of errors made beginning after 15 December 2005. SFAS 154 provides guidance on the accounting for and reporting of acco (voluntary and those required by the issuance of an accounting pronouncement) and error corrections. APB previously required that most voluntary changes in accounting principle be recognised by including in net incom of the changes, the cumulative effect of changing to the new accounting principle. SFAS 154 establishes, unless retrospective application of the direct effects of the change as the required method for reporting a change in accou in the absence of explicit transition requirements specific to the newly adopted accounting principle. The correctio previously issued financial statements is not an accounting change although the reporting of an error corr adjustments to previously issued financial statements similar to those for reporting an accounting change. A Statement by Lloyds TSB Group in its US GAAP financial statements is not expected to have a n

50 Differences between UK GAAP and US GA

The following tables summarise the adjustments to net income and shareholders equity which would arise from t

Reconciliation of net income

	Note	**2004**	2003	2
		£m	£m	£
Profit for the year attributable to shareholders under UK GAAP		**2,421**	3,254	1
Insurance activities, excluding tax effects	p	**(42)**	(160)	(
Banking and Group activities:				
Goodwill amortisation	a	**44**	51	7
Adjustment to result on sale of businesses	b	**(5)**	(12)	
Amortisation of customer related intangibles	a	**(157)**	(150)	(
Pension costs	c	**(137)**	143	1
Leasing		**(74)**	(37)	(
Property depreciation		**2**		4
Share compensation schemes	d	**(23)**	(113)	(
Internal software costs		**(4)**	(17)	6
Derivatives	f	**(60)**	172	3
Variable interest entities	l	**14**		
Foreign currency translation differences		**5**	(4)	1
Total banking and Group activities, excluding tax effects		**(395)**	33	1
Taxation:				
Deferred taxation	i	**4**	21	2
Deferred taxation on GAAP differences	i	**74**	83	1
Total taxation		**78**	104	1
Total adjustments before accounting changes		**(359)**	(23)	(
Net income before accounting changes		**2,062**	3,231	1
Cumulative effect of changes in accounting principles (net)	p, l	**(554)**		
Net income under US GAAP		**1,508**	3,231	1

Reconciliation of shareholders equity

	Note	**2004**	2003
		£m	£m
Shareholders funds under UK GAAP		**9,977**	9,624
Insurance activities, excluding tax effects	p	**(456)**	(66)
Banking and Group activities:			
Goodwill	a	**1,262**	1,218
Customer related intangibles	a	**378**	535
Pension costs	c	**1,003**	971
Leasing		**(494)**	(420)
Property depreciation		**(43)**	(45)
Internal software		**28**	41
Derivatives	f	**19**	76
Net unrealised gain on available-for-sale securities	g	**36**	109
Variable interest entities	l	**(316)**	
Dividend payable		**1,315**	1,314
Own shares related items	h	**(185)**	(195)
Total banking and Group activities, excluding tax effects		**3,003**	3,604
Taxation:			
Deferred taxation	i	**(35)**	(39)

Deferred taxation on GAAP differences	i	**(1,031)**	(1,231)
Total taxation		**(1,066)**	(1,270)
Total adjustments, after tax		**1,481**	2,268
Shareholders equity under US GAAP		**11,458**	11,892

50 Differences between UK GAAP and US GA

Reconciliation of movements in shareholders equity u

	2004	2003	2002
	£m	£m	£m
Net income in period	**1,508**	3,231	1,753
Dividends	**(1,913)**	(1,908)	(1,90
	(405)	1,323	(150)
New share capital subscribed	**10**	45	139
Movement in own shares	**8**	(31)	35
Share compensation schemes	**35**	113	44
Minimum pension liability	**(48)**	53	(3,27
Change in the fair value of available-for-sale securities insurance activities	**31**	8	15
Change in the fair value of available-for-sale securities banking activities	**(51)**	54	(147)
Exchange and other adjustments	**(14)**	163	
	(434)	1,728	(3,34
Shareholders equity at beginning of period	**11,892**	10,164	13,50
Shareholders equity at end of period	**11,458**	11,892	10,16

Accumulated other comprehensive income

	2004	2003	2002
	£m	£m	£m
Exchange translation differences	**(172)**	(158)	(321)
Additional minimum pension liability	**(3,272)**	(3,224)	(3,27
Available-for-sale securities:			
Net unrealised gains insurance activities	**314**	182	245
Related amortisation of deferred acquisition costs	**(211)**	(125)	(197)
Net unrealised gains banking activities	**36**	109	32
Taxation	**(42)**	(49)	(25)
	97	117	55
Accumulated other comprehensive income under US GAAP	**(3,347)**	(3,265)	(3,54

50 Differences between UK GAAP and US GA

Condensed US GAAP Profit an

The following table provides a condensed profit and loss account for the Group, incorporating the US GA

	2004	2003	2002
	£m	£m	£m
Loan interest, including fees	**10,380**	8,341	7,937
Other interest and dividends	**2,453**	1,771	2,035
Insurance premiums	**1,871**	2,042	2,015
Commissions and fees	**2,049**	2,328	2,171
Realised gains from sales of investments	**142**	89	163
Foreign exchange trading income	**178**	193	149
Securities and other trading gains (losses)	**2,678**	1,021	(2,370)
Other income	**2,511**	1,755	1,881
Total revenues	**22,262**	17,540	13,981
Interest expense	**5,594**	4,106	4,123
Total revenues, net of interest expense	**16,668**	13,434	9,858
Policyholder benefits and claims expense	**4,473**	3,036	1,565
Movement in undistributed earnings to policyholders	**777**	(100)	(1,518)
Provisions for bad and doubtful debts	**866**	887	978
Amounts written off fixed asset investments	**52**	44	87
Total benefits, claims and provisions	**6,168**	3,867	1,112
Non-insurance compensation and benefits	**2,547**	2,306	2,418
Insurance underwriting, operating and acquisition expenses	**583**	578	766
Other operating expenses	**3,108**	2,619	1,828
Depreciation	**628**	713	749
Amortisation of intangible fixed assets:			
Customer related intangibles	**157**	150	193
Value of long-term assurance business acquired	**243**	188	725
	400	338	918
	7,266	6,554	6,679
Income before tax from continuing operations	**3,234**	3,013	2,067
Provision for income taxes (continuing operations)*	**928**	832	495
Minority interests, net of income taxes	**226**	26	62
Discontinued operations:			
Income from discontinued operations		354	311
(Loss) profit on sale of businesses	**(20)**	853	
Provision for income taxes	**2**	(89)	(81)
	(18)	1,118	230
Cumulative effect of changes in accounting principles (net)	**(554)**	(42)	13
Net income under US GAAP	**1,508**	3,231	1,753
Exchange translation and other differences	**(14)**	163	
Minimum pension liability	**(48)**	53	(3,277)
Available-for-sale securities:			
Net unrealised gains (losses) insurance activities	**132**	(63)	196
Related amortisation of deferred acquisition costs	**(86)**	72	(174)
Net unrealised (losses) gains banking activities	**(73)**	77	(210)
Taxation	**7**	(24)	56
	(20)	62	(132)
Comprehensive income under US GAAP	**1,426**	3,509	(1,656)
Earnings per share (pence)	**27.0p**	57.9p	31.5p
Diluted earnings per share (pence)	**26.8p**	57.7p	31.3p

* Significant items affecting the Group s effective tax rate under US GAAP include the fact that tax is levied on UK life assura businesses under specialised rules not based on the profit and loss account. In addition, under US GAAP a tax provision is rec

unrealised gains that are attributable to the policyholders. The amount provided will vary depending upon the fluctuations of t
and this movement can result in significant changes in the effective rate of tax.

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50 Differences between UK GAAP and US GA

Condensed US GAAP

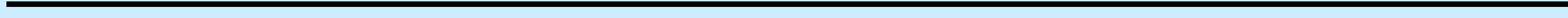
The following table provides a condensed balance sheet for the Group, incorporating the US GAAP adjus

	2004	2003
	£m	£m
Assets		
Cash and due from banks	**10,287**	9,364
Deposits at interest with banks	**13,410**	10,219
Securities purchased under resale agreements	**12,780**	2,642
Treasury bills and other eligible bills	**88**	530
Trading and other investments	**55,751**	36,627
Investment securities	**19,944**	19,045
Loans, net of provisions	**152,428**	134,043
Tangible fixed assets	**4,306**	3,842
Intangible fixed assets:		
Goodwill	**3,862**	3,731
Customer related intangibles	**378**	535
Value of long-term assurance business acquired	**1,587**	2,094
Pension liability related intangible	**233**	231
Deferred acquisition costs	**1,310**	1,048
Separate account assets		22,494
Other assets	**5,234**	4,713
Total assets	**281,598**	251,158
Liabilities		
Deposits	**159,546**	140,451
Trading account liabilities	**3,135**	3,500
Debt securities in issue	**28,562**	25,922
Policyholder liabilities	**51,962**	25,080
Undistributed policyholder allocations	**1,505**	1,772
Commitments and contingencies	**211**	216
Deferred tax	**1,370**	1,444
Long-term debt	**10,802**	11,003
Separate account liabilities		22,494
Other liabilities	**10,306**	7,330
Minority interests	**2,741**	54
Total liabilities	**270,140**	239,266
Shareholders equity:		
Common stock	**1,419**	1,418
Additional paid-in capital	**5,048**	5,003
Retained earnings	**8,523**	8,929
Treasury stock	**(185)**	(193)
Accumulated other comprehensive income	**(3,347)**	(3,265)
Total shareholders equity	**11,458**	11,892
Total liabilities and shareholders equity	**281,598**	251,158

50 Differences between UK GAAP and US GA

Condensed Consolidated statement of cash flows in accordance wit

	2004	2003
	£m	£m
Cash flows from operating activities		
Net income before minority interests and effect of accounting changes	**2,287**	3,299
Adjustments required to reconcile net income to net cash provided by operating activities:		
Amortisation of intangible fixed assets	**400**	338
Depreciation of tangible fixed assets	**628**	726
Provision for bad and doubtful debts, net of write-offs	**12**	(17)
Change in trading and other investments	**3,283**	4,309
Change in trading account liabilities	**(365)**	(2,083)
Change in deferred acquisition costs	**(290)**	(202)
Change in other assets	**17**	1,760
Change in policyholder liabilities	**3,208**	1,365
Change in undistributed policyholder allocations	**789**	(118)
Change in other liabilities	**2,830**	(2,779)
Net gain on sale of investment securities	**(142)**	(89)
Loss (profit) on disposal of businesses	**20**	(853)
Profit on disposal of tangible fixed assets	**(11)**	(43)
Other, net	**(10)**	884
Total adjustments	**10,369**	3,198
Net cash provided by operating activities	**12,656**	6,497
Cash flows from investing activities		
Change in deposits at interest with banks	**(1,171)**	1,587
Change in securities purchased under resale agreements	**(10,138)**	(946)
Change in loans and advances to customers	**(18,214)**	(12,342)
Purchases of investment securities	**(12,992)**	(40,763)
Proceeds from sale and maturity of investment securities	**11,791**	39,312
Purchases of tangible fixed assets	**(1,212)**	(799)
Proceeds from sale of tangible fixed assets	**243**	330
Additions to interests in joint ventures		(12)
Acquisition of subsidiary undertakings and businesses	**(16)**	(1,106)
Disposal of subsidiary undertakings and businesses	**(25)**	2,382
Net cash used in investing activities	**(31,734)**	(12,357)
Cash flows from financing activities		
Dividends paid equity	**(1,913)**	(1,908)
Dividends paid to minorities equity	**(24)**	(14)
Dividends paid to minorities non-equity	**(201)**	(38)
Cash proceeds from issue of ordinary share capital and transactions in treasury stock	**11**	32
Issue of long-term debt	**699**	533
Redemption of long-term debt	**(764)**	(75)
Minority investment in subsidiaries		
Repayment of third party capital investment	**(132)**	
Change in deposits	**19,731**	6,388
Change in short-term borrowings	**2,418**	1,807
Policyholders deposits	**4,202**	1,039
Policyholders withdrawals	**(4,026)**	(1,087)
Net cash provided by financing activities	**20,001**	6,677
Change in cash and cash equivalents	**923**	817
Cash and cash equivalents at beginning of period	**9,364**	8,547
Cash and cash equivalents at end of period	**10,287**	9,364
Cash paid during the year for income taxes	**763**	784
Cash paid during the year for interest	**5,107**	5,066



50 Differences between UK GAAP and US GAA

Balance shee

Certain classification differences exist in financial reporting under UK GAAP and US GAAP. For the Group, su
primarily arise in the balance sheet and the following comparison lists the line items in which such dif

UK GAAP	**US GAAP**
Cash and balances at central banks	Cash and due from banks
Items in course of collection from banks	Cash and due from banks
Treasury bills and other eligible bills	Classified as Trading and other investments where appropriate
Loans and advances to banks	Loans to banks due on demand classified as Cash and due from
	Reverse repos classified as Securities purchased under resale ag
Loans and advances to customers	Reverse repos classified as Securities purchased under resale ag
Debt securities	Classified as Trading and other investments and Investment s appropriate
Equity shares	Classified as Trading and other investments and Investment s appropriate
Other assets	Classified as Trading and other investments where appropriate
Prepayments and accrued income	Other assets
Items in course of transmission to banks	Cash and due from banks
Debt securities in issue	Classified as Trading account liabilities where appropriate
Other liabilities	Classified as Trading account liabilities where appropriate
Accruals and deferred income	Other liabilities
Other provisions for liabilities and charges	Commitments and contingencies
Subordinated liabilities	Long-term debt
Merger reserve	Classified as Additional paid-in capital
Long-term assurance business	Classifications are discussed on pages F-86 to F-89

Consolidated statemen

The Group s UK GAAP cash flow statement on page F-7 is prepared under the provisions of FRS 1 (Revised). T
many respects to SFAS No. 95 Statement of Cash Flows , as amended by SFAS No. 104 Statement of Cash Fl
of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions
differences arise between the standards with regard to the definition of cash and the classification of items withi

FRS 1 (Revised) defines cash as cash in hand and repayable on demand. Under SFAS No. 95, cash and cash
defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash; an
maturity that they present insignificant risk of changes in value because of changes i

For the purposes of SFAS No. 95, the Group s cash and cash equivalents of £10,287 million (2003: £9,364 millio
million) comprise items reported under the following UK balance sheet categories: cash and balances at central
the course of collection from banks; loans and advances to banks repayable on demand and items in the course of
banks. Under UK GAAP the results, assets and liabilities of the long-term assurance business are presented on a
and accordingly movements in cash flows are aggregated into one line within the reconciliation of operating pr
GAAP, the insurance activities have been disaggregated and accordingly the cash flows have been allocated to
line items within the cash flow statement. Cash attributable to the long-term assurance business is included withir
equ

Differences between UK and US GAAP with regard to classification of items within the cash flow statement a

Cash flow	**Classification under FRS 1 (Revised)**	**Classificatio under SFAS No. 9**

Net change in loans and advances, including lease financing	Operating activities	Investing ac
Net change in deposits and debt securities in issue	Operating activities	Financing activities
Dividends paid to equity and non-equity minority interests	Returns on investments and servicing of finance	Financing activities
Tax paid	Taxation	Operating activities
Capital expenditure and financial investment	Capital expenditure and financial investment	Investing ac
Purchases/proceeds from disposal of subsidiary and associated undertakings	Acquisitions and disposals	Investing ac
Dividends paid equity	Equity dividends paid	Financing activities

Under FRS 1 (Revised), transactions designated as hedges are reported under the same heading as the related asse

The restrictions in respect of cash and balances at central banks are disclosed

Notes to the UK/US GAAP

a Goodwill and customer related int

Under UK GAAP on 1 January 1998, the Group adopted FRS 10, Goodwill and Intangible Assets . In resp
since 1 January 1998, goodwill is included in the consolidated balance sheet under intangible fixed assets and am
estimated useful economic life on a straight-line basis. Prior to 1 January 1998, the Group charged goodwill
reserves. In the case of the acquisition of Scottish Widows in 2000, in view of the strength of the Scottish Widow
position of the business as one of the leading providers of life, pensions, unit trust and fund management produc
consider that it is appropriate to assign an indefinite life to the goodwill. This goodwill is not being amortised th
and loss account; however it is subjected to annual impairment reviews in accordance with FRS 11 Impairmen
and Goodwill . Should any impairment be identified, it would be charged to the profit and loss acco

Under US GAAP, from 1 January 2002 the Group adopted the remaining provisions of SFAS No. 142 and
goodwill arising in respect of acquisitions is capitalised but no longer amortised and is subject to regular review
in periods prior to 1 January 2002, goodwill arising in respect of acquisitions was amortised over periods of
Goodwill amortised prior to the full adoption of SFAS No. 142 is not permitted t

The Group has performed the required impairment tests under UK and US GAAP and no impairments were re
goodwill during 2002

The treatment of the Group s major acquisitions i

In 1988, Lloyds Bank Plc transferred a minority interest in five businesses to Abbey Life Group plc, a life insuran
return for a majority interest in the enlarged Abbey Life Group. Under UK GAAP, this transaction was ac
merger. Under US GAAP, the same transaction would be accounted for as an acquisition. Accordingly the net a
Life Group plc (later renamed Lloyds Abbey Life plc) have been fair valued in accordance with US GAAP and a
determined based on the fair value of the minority interest transferred. In 1996, Lloyds TSB Group plc acquire
minority interest in Lloyds Abbey Life plc. Under UK and US GAAP the transaction is treated as an acquisi
certain differences arise under US GAAP regarding the determination of fair value of life insurance companies a
an adjustment has been made for the

Cheltenha

Under UK and US GAAP, the purchase of the business of Cheltenham & Gloucester Building Society by Llo
August 1995 is treated as an acquisition. Certain differences arise under US GAAP regarding the fair value of t
addition, the net assets acquired include £521 million relating to customer related intangibles, which has been a

The business combination of Lloyds Bank Plc and TSB Group plc in December 1995 was accounted for as a merg
under UK GAAP at that time, although legally TSB Group plc was deemed to have acquired Lloyds Bank Plc. Un
the same transaction would have been accounted for as an acquisition of TSB Group plc by Lloyds Bank Plc. A
US GAAP, the net assets of TSB Group plc have been fair valued as at the date of the business combination and a
determined based on the value of TSB Group plc shares at that time. The net assets include £1,596 million relat
related intangibles, which is being amortise

S

In March 2000, the Group acquired the business of Scottish Widows Fund and Life Assurance Society, a l
pensions provider. Under UK and US GAAP, the purchase is treated as an acquisition. However certain differe
US GAAP regarding the determination of fair value of the life insurance business, and certain other differences b
US GAAP such as the treatment of pensions and own shares, for which adjustments h

50 Differences between UK GAAP and US GA

The movement in US GAAP goodwill is summari

	2004 UK GAAP £m	2004 US GAAP adjustment £m	2004 US GAAP £m	2003 UK GAAP £m	2003 US GAAP adjustment £m	2003 US GAAP £m
Cost						
Balance at 1 January	**2,626**	**2,156**	**4,782**	2,771	2,325	5,096
Acquisition adjustment	**(34)**		**(34)**			
Exchange and other adjustments				32	11	43
Acquisitions				96	(96)	
Disposals	**(14)**		**(14)**	(273)	(84)	(357)
Adoption of FIN 46-R (see note l)		**175**	**175**			
Balance at 31 December	**2,578**	**2,331**	**4,909**	2,626	2,156	4,782
Amortisation						
Balance at 1 January	**(113)**	**(938)**	**(1,051)**	(137)	(978)	(1,115)
Exchange and other adjustments				(9)	(3)	(12)
Charge for the year	**(44)**	**44**		(51)	51	
Disposals	**4**		**4**	84	(8)	76
Balance at 31 December	**(153)**	**(894)**	**(1,047)**	(113)	(938)	(1,051)
Net book value	**2,425**	**1,437**	**3,862**	2,513	1,218	3,731

Within the reconciliation of shareholders equity on page F-64, the £175m US GAAP adjustment in respect o
FIN 46-R is included within the variable intere

The movement in goodwill by segment over 200

	Balance at 1 January £m	Exchange movements £m	Disposals £m	Other adjustments £m	Balance at 31 December £m
UK Retail Banking and Mortgages	**660**				**660**
Insurance and Investments	**2,194**			**(34)**	**2,160**
Wholesale and International Banking	**877**		**(10)**	**175**	**1,042**
	3,731		**(10)**	**141**	**3,862**

Under US GAAP, the intangible asset representing the value of customer relationships associated with a
capitalised separately and amortised in the consolidated income statement over the estimated average life o
relationships. At 31 December 2004, the weighted average remaining life of those relationships is estima

The movement in customer related intangible assets is summari

	2004 £m	2003 £m
Cost		
Balance at 1 January	**2,223**	2,127
Additions		96
Balance at 31 December	**2,223**	2,223
Amortisation		
Balance at 1 January	**1,688**	1,538
Charge for the year	**157**	150
Balance at 31 December	**1,845**	1,688
Net book value	**378**	535

Over the next 5 years, estimated amortisation is

200

2006

200

200

200

50 Differences between UK GAAP and US GA

b Disposa

During 2004, the Lloyds TSB Group disposed of substantially all of its interests in Argentina, Colombia, Guater
and Panama; during 2003 the Lloyds TSB Group disposed of its interest in the National Bank of New Zealand, i
France and certain of its inte

Under UK GAAP, upon disposal of a business or undertaking, goodwill written off directly against reser
implementation of FRS 10 Goodwill and Intangible Assets , is included in the Group s share of the net asse
undertaking in the calculation of the profit or lo

Under US GAAP, all goodwill is capitalised and, up to 31 December 2001, amortised over its estimated use
January 2002, goodwill is no longer amortised but instead subject to impairment testing. Upon disposal o
undertaking, the goodwill is included in the calculation of the profit or loss on disposal. Compared to the treat
GAAP, the effect of this is to increase the profits, or reduce the losses, arising on the sale of those businesses acqu
implementat

The difference between the profit on disposal under UK GAAP and that recorded under US GAAP was analy

	2004	**2003**
	£m	**£m**
Differences in the net book value of goodwill	**3**	89
Other UK/US GAAP accounting differences	**(8)**	6
Exchange adjustments		(107)
Adjustment to result on sale of businesses	**(5)**	(12)

These adjustments increased the loss on disposal reported under UK GAAP in 2004 of £15 million to £2
US GAAP; the adjustments for 2003 reduced the profit on disposal of £865 million under UK GAAP
£853 million un

The trading results of those businesses sold in 2004 were not significant and they have not been classified a
operations. The trading results classified as discontinued operations in the comparative periods relate to the Lloy
businesses in New Zealand, Brazil and France which were sold in 2003. For those businesses, summarised financi
prepared in accordance with US GAAP,

	2003	2002
	£m	£m
Total revenues, net of interest expense	705	640
Income from discontinued operations	354	311
Profit on sale of businesses	853	
Provision for income tax	(89)	(81)
	1,118	230

c Pension and other post-re

The measurement of the US GAAP pension cost is undertaken in accordance with the requirements of SFAS No
No. 106. The disclosures reflect the amendments arising from SFAS No. 132 Employers Disclosures about P
Postretirement Benefits

For the reconciliations below, the Group has applied SFAS No. 87 to the Lloyds TSB Group Pension Schemes No
effect from 31 December 1997 as it was not feasible to apply it as of January 1989, the date specified in th
Scottish Widows pension scheme has been included from 3 March 2000, the date

50 Differences between UK GAAP and US GA

Other post-retirement costs include a liability of £99 million (2003: £87 million) in respect of post-retirem

P

The components of the defined benefit pension expense which arise under US GAAP a

	2004	2003	2002
	£m	£m	£m
Service cost	**286**	267	256
Interest cost	**730**	670	655
Expected return on plan assets	**(824)**	(797)	(817)
Net amortisation and deferral	**212**	3	(79)
Net pension charge	**404**	143	15
Net charge recognised under UK GAAP	**267**	286	128
US GAAP adjustment	**137**	(143)	(113)

Obligations an

	2004	20
	£m	£n
Change in plan assets		
Plan assets at fair value as at 1 January	**10,608**	9,(
Exchange and other movements	**3**	(65
Actual return on plan assets	**1,098**	1,8
Employer contributions	**374**	13
Benefits paid	**(425)**	(39
Plan assets at fair value at 31 December	**11,658**	10
Change in projected benefit obligation		
Projected benefit obligation as at 1 January	**13,774**	12
Exchange and other movements		(99
Service cost	**286**	26
Interest cost	**730**	67
Amendments	**28**	37
Net actuarial loss	**580**	1,1
Benefits paid	**(425)**	(39
Projected benefit obligation at 31 December	**14,973**	13
Funded status	**(3,315)**	(3,
Unrecognised net actuarial loss	**5,573**	5,4
Unrecognised prior service cost	**233**	23
Accrued/prepaid	**2,491**	2,5
Accrued benefit cost	**(2,417)**	(2,
Intangible asset recognised	**233**	23
Accumulated other comprehensive income	**4,675**	4,6
Net amount recognised	**2,491**	2,5
Accrued benefit cost, net of intangible asset recognised under US GAAP	**(2,184)**	(2,
Accrued liability recognised under UK GAAP	**3,187**	3,0
US GAAP adjustment	**1,003**	97

Accumulated ben

The accumulated benefit obligations for all defined benefit pension schemes were £14,075 million at 31 Decemb
£1

Information for pension plans with an accumulated benefit obligation in excess of plan assets is presented in ag

	2004	2003
	£m	£m
Projected benefit obligation	**14,344**	13,168
Accumulated benefit obligation	**13,588**	12,468
Fair value of plan assets	**11,248**	10,227

50 Differences between UK GAAP and US GAA

The additional minimum pension liability arising on these plans of £4,908 million (2003: £4,836 million) has bee accumulated other comprehensive income, net of the related intangible asset of £233 million (2003: £231 millio taxes of £1,403 million (2003: £

The financial assumptions used to calculate the projected benefit obligation at 31 December 2004 and 2003

	2004	2003
	%	%
Discount rate	**5.30**	5.40
Expected rate of salary increases	**4.14**	4.04
Rate of pension increases	**2.60**	2.50

The financial assumptions used to determine net cost for the years ended 31 December 2004, 2003 and 2002

	2004	2003	2002
	%	%	%
Discount rate	**5.40**	5.60	6.00
Expected return on assets	**6.60**	6.60	6.60
Expected rate of salary increases	**4.04**	3.83	4.04
Rate of pension increases	**2.50**	2.30	2.50

The overall expected return on assets assumption has been determined with the aim of reflecting the average expected on the funds invested. In deriving this return the aim is to use a stable, realistic long-term rate of return is considered whether the rate of return is reasonable having regard to the weighted average of the expected retur the main asset classes adjusted to allow for any difference between the levels of the fair value and market related

The expected return for each asset class reflects a combination of historical performance analysis, the forward lo the financial markets (as suggested by the yields available) and the views of investment organisations. Consi given to the rate of return expected to be available fo

The assets of the pension schemes are invested primarily in equities and fixed interest securities. In accordance 87, the excess of the plan assets over the projected benefit obligation at the transition date (1 January 1998) is reduction to pension expense on a prospective basis over approximately 15 years, which was the average re period of employees expected to receive benefits u

The pension schemes asset allocation at 31 December 2004 and 2003 and the target allocation for 20

	Fair value of plan assets at 31 December 2004	Fair value of plan assets at 31 December 2003	Target allocation 2005
	%	%	%
Equities	**69.3**	70.3	70.0
Debt securities	**17.1**	20.1	20.0
Property	**8.3**	6.7	8.0
Other	**5.3**	2.9	2.0

100.0	100.0	100.0

The principal investment objective is to hold suitable assets of appropriate liquidity which will generate inco
growth to meet, together with new contributions from members and the employer, the cost of current and future
the sc

Following an asset-liability modelling study conducted in 2002, the trustees of Lloyds TSB Group Pension Schem
considered the target asset allocation in the table above to be appropriate for the purposes of meeting this long-ter
determining this allocation, the trustees had regard to the benefits of diversification, the historical rates of retu
expected future returns and the expected short-term volatility of e

The trustees have taken advice from the Scheme Actuary and investment consultant to ensure that this target alloca
for the schemes given their liability profiles. A number of investment managers have been employed to mana
assets and each has been given a specific benchmark and perform

The approach taken by the trustees of Lloyds TSB Group Pension Schemes Nos. 1 and 2 is similar to that taken b
the other Lloyds TSB Group pe

50 Differences between UK GAAP and US GA

Employers

Employers contributions were £374 million during 2004 (2003: £138 million). Employers contributions
approximately £425 millio

Employers be

Employers benefit payments were £425 million during 2004 (2003: £398 million). Estimated future benefit paym

2005	£434 million
2006	£461 million
2007	£489 million
2008	£518 million
2009	£549 million
2010-2014	£3,250 million

d Share compens

In accordance with SFAS No. 123 the Group accounts for share compensation schemes based on their estimated f
date of grant. The following disclosures only reflect options granted from 1 January 1995 onwards. In the initial p
the amounts will not be representative of the effect on reported net income for future years. The SFAS No. 123 cha
value of share compensation grants since 1 Ja

	2004	2003	2002
	£m	£m	£m
Balance at 1 January	**(321)**	(208)	(164)
Charge for grants in the year	**(4)**	(17)	(9)
Charge for grants in prior years	**(19)**	(96)	(35)
Total charge for the year	**(23)**	(113)	(44)
Balance at 31 December	**(344)**	(321)	(208)

During the period from 1 January 1995 to 31 December 2004 the Group operated the following stock comp

Executive share o

The Executive share option schemes are long-term incentive schemes and are available to certain senior executive
with grants usually made annually. Options are granted within limits set by the rules of the schemes. These lim
number of shares under option and the price payable on the exercise of options. From 18 April 2001, the aggreg
award based upon the market price at the date of grant must not exceed four times the executive s annual re
normally, the limit for the grant of options to an executive in any one year would be equal to 1.5 times annu
maximum performance multiplier of 3.5. Prior to 18 April 2001, the normal limit was equal to one year s remu
performance multipli

Options are normally exercisable between three and ten years from the date of grant. However, the exercise o
subject to the satisfaction of the following performa

For options granted aft

The performance condition is linked to the performance of Lloyds TSB Group plc s total shareholder retur
reference to both dividends and growth in share price) against a comparator group of 17 companies including Lloy

The performance condition is measured over a three year period commencing at the end of the financial year prec
of the option and continuing until the end of the third subsequent year. If the performance condition is not ther
measured at the end of the fourth financial year. If the condition has not then been met, the opt

To meet the performance conditions, the Group s ranking against the comparator group must be at least ninth.
options will only become exercisable if the Group is ranked first. A performance multiplier will be applied bel
calculate the number of shares in respect of which options granted to executive directors will become exercisal
calculated on a sliding scale. If Lloyds TSB Group plc is ranked below median the options will not becor

Options granted to senior executives other than executive directors are not so highly leveraged and as a r
performance multipliers are applied to their options. For the majority of executives, options are granted with th
condition but no performa

50 Differences between UK GAAP and US GA

For options granted up

Options granted	Performance conditions
Prior to March 1996	None.
March 1996	Growth in earnings per share which is equal to the aggregate percentage change in th Index plus two percentage points for each complete year of the relevant period.
March 1997 August 1999	That Lloyds TSB Group plc s ranking based on total shareholder return (calculated b both dividends and growth in share price) over the relevant period should be in the to companies of the FTSE 100 and that there must have been growth in earnings per sha equal to the aggregate percentage change in the Retail Price Index plus two percentag each complete year of the relevant period.
March 2000 March 2001	As for March 1997 August 1999 except that there must have been growth in the ea share equal to the change in the Retail Price Index plus three percentage points for ea year of the relevant period.

In respect of options granted between March 1996 and March 2001, the relevant period for the performance cond the end of the financial year of the date of grant and will continue until the end of the third financial commencement or, if not met, the end of such later year in which the conditions are met. Once the conditions hav the options will remain exercisable without further conditions. If they are not satisfied by the tenth anniversary op

The effect of the performance conditions on the value of the executive share options has been determined by ass earnings per share condition will be satisfied at all times and by using a stochastic projection model to determine t market-based condition. The compensation cost accrued in the US GAAP financial statements has therefore been estimate of the number of options that are likely to vest. To the extent that actual forfeitures are different from th calculation of the compensation cost will be revised

As at 31 December 2004, no options granted under the Executive share scheme have lapsed as a result of a failu performa

Executive scheme	**2004 Number of options**	**2004 Weighted average exercise price (pence)**	2003 Number of options	2003 Weighted average exercise price (pence)	2002 Number of options	2002 Wei aver exer (pen
Outstanding at 1 January	**33,000,905**	**560.18**	20,990,641	670.58	15,153,496	651.
Granted	**12,998,345**	**418.67**	13,405,502	393.63	6,940,024	711.
Exercised	**(372,348)**	**278.74**	(57,092)	254.00	(369,721)	420.
Forfeited	**(6,337,472)**	**560.66**	(1,338,146)	636.51	(733,158)	781.
Outstanding at 31 December	**39,289,430**	**515.95**	33,000,905	560.18	20,990,641	670.

The weighted average fair value of options granted in the year was £0.47 (2003: £0.62; 2002: £1.41). Of the optio at 31 December 2004 1,949,426 were exercisable (2003: 6,930,536; 2002: 4,409,916) and had a weighted average of £6.50 (2003: £6.24

Lloyds TSB Group Executive Sh

The plan was adopted in December 2003 and under the plan share options may be granted to senior employe directors of Lloyds TSB Group. An option was granted to one employee on 9 March 2004 and two options we second employee on 14 December 2004; in each case these were granted specifically to facilitate recruitment. The on 9 March 2004 has a total exercise price of £1 and is exercisable in the six month period beginning on 2 January options granted on 14 December 2004 are nil cost options with no exercise price. The option over 56,433 shares is the six month period beginning 16 October 2006 and the option over 104,966 shares is exercisable in the si beginning 2 December 2007. Options granted under this plan are not subject to any performa

Lloyds TSB Group Executive Share Plan 2003	**2004** **Number of options**	**2004** **Weighted aver** **exercise price**
Outstanding at 1 January		
Granted during the year	**206,647**	**Nil**
Outstanding at 31 December	**206,647**	**Nil**

The weighted average fair value of options granted in the year was £3.69. No options outstanding at 31 I

50 Differences between UK GAAP and US GA

Share

In 2001, the Group adopted the Lloyds TSB Group plc Share Retention Plan. Options granted under this scheme
to any performance conditions. The option granted in 2001 was made specifically to facilitate the recruitment of M
a total exercise price of £1, and is exercisable in the six month period beginning 31 D

Share retention plan	**2004 Number of shares**
Outstanding at 1 January and 31 December	**216,763**

The weighted average remaining vesting period as at 31 December 2004 was nil; Mr Daniels exercised his option
subsequent t

Lloyds TSB Group plc Sh

In 2003, the Group adopted the Lloyds TSB Group plc Share Plan 2003. Options granted under this scheme were
any performance conditions. An option was granted in 2003 specifically to facilitate the recruitment of Mr Targ
had a total exercise price of £1, and would have been exercisable in the six month period beginning 31 December
this option lapsed during 2004 following Mr Targe

Lloyds TSB Group plc Share Plan 2003	**2004 Number of shares**
Outstanding at 1 January	**331,125**
Lapsed during the year	**(331,125)**
Outstanding at 31 December	**-**

Save-As-You

Eligible employees may enter into contracts through the Save-As-You-Earn (SAYE) scheme to save up to £250
at the expiry of a fixed term of three or five years, have the option to use these savings within six months of th
fixed term to acquire shares in the Group at a discount, which is currently 20 per cent of the market price at the d
were granted. Grants in periods up to 31 December 2001 also had options exercising aft

	2004 Number of options	**2004 Weighted average exercise price (pence)**	2003 Number of options	2003 Weighted average exercise price (pence)	2002 Number of options	20 W av ex (p
SAYE scheme						
Outstanding at 1 January	**124,683,429**	**335.85**	104,548,147	489.55	106,806,493	47
Granted	**16,225,108**	**322.90**	100,863,926	289.23	35,113,451	50
Exercised	**(1,280,773)**	**354.59**	(4,267,120)	355.14	(18,847,753)	40
Forfeited/cancelled	**(17,511,857)**	**421.09**	(76,461,524)	483.43	(18,524,044)	54
Outstanding at 31 December	**122,115,907**	**321.71**	124,683,429	335.85	104,548,147	48

The weighted average fair value of options granted in the year was £0.92 (2003: £0.85; 2002: £1.75). Of the optio
at 31 December 2004 1,308,580 were exercisable (2003: 3,422,122; 2002: 3,923,030) and had a weighted average
of £6.20 (2003: £5.60; 2002 £5.87). In 2004 cancellations of approximately 8 million shares (2003: approximat
2002: approximately 14 million) are included in the a

The Lloyds TSB Group Shareplan (

The Shareplan was established for the purpose of providing an enhanced remuneration package for employee
Group shares are provided to employees

Free shares: these are awarded to employees for no consideration, as a percentage of salaries by reference to the p
Lloyds TSB Group. If an employee leaves the Group within three years from the date of award other than for a pro
(such as redundancy, death or retirement after age 50 or due to ill health), a portion of the shares awarded will be
within one year of the award, 50% within 2 years and 25%

Partnership shares: these are acquired by employees via monthly

Matching shares: these are additional shares awarded for no consideration to employees acquiring partnersh
employee leaves the Group within three years from the date of award for a reason other than for a proscribed
redundancy, death or retirement after age 50 or due to ill health) or sells the accompanying partnership shares w
year period, the matching shares awarded w

The weighted average fair value of shares awarded in the year in respect of free shares was £4.27 (2003: £4.09,
award). The weighted average fair value of shares awarded in the year in respect of matching shares was £4.28 (2
first

50 Differences between UK GAAP and US GA

The ranges of exercise prices, weighted average fair values and weighted average contractual life for the options the Lloyds TSB Group Executive Share Plan 2003 (Executive Share Plan), Executive and SAYE option scher 31 December 2004, 2003 and 2002 are shown in t

	2004 Executive Share Plan	**2004 Executive**	**2004 SAYE**	2003 Executive	2003 SAYE	2002 Executive
Exercise price (pence)	**Nil**	**242.50-887.50**	**284.00-768.00**	242.50-887.50	253.00-768.00	242.50-887.50
Fair value (pence)	**369**	**40-209**	**86-295**	62-209	85-295	63-209
Weighted average remaining life (years)	**2.5**	**7.66**	**2.87**	7.8	3.5	7.7

The ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life options outstanding at 31 December 2004 for the Executive and SAYE schemes

	Executive Share Plan			**Executive schemes**			**SAYE schemes**	
Exercise price range	**Weighted average exercise price (pence)**	**Weighted average remaining life (years)**	**Number of options**	**Weighted average exercise price (pence)**	**Weighted average remaining life (years)**	**Number of options**	**Weighted average exercise price (pence)**	**Weighted average remaining life (years)**
£0 to £2	**Nil**	**2.5**	**206,647**					
£2 to £3				**245.01**	**0.2**	**127,058**	**284.00**	**3.0**
£3 to £4				**392.82**	**8.0**	**10,386,979**	**330.51**	**3.7**
£4 to £5				**419.89**	**9.2**	**13,813,324**	**452.21**	**1.4**
£5 to £6				**541.65**	**4.6**	**2,767,256**	**554.84**	**1.6**
£6 to £7				**665.06**	**6.3**	**3,063,872**	**632.00**	**1.2**
£7 to £8				**717.64**	**7.1**	**7,392,741**	**723.79**	**0.5**
£8 to £9				**873.34**	**3.7**	**1,738,200**		

Of the above outstanding options, the following were exercisable as at 31 D

	Executive Share Plan		**Executive schemes**		**SAYE schem**
	Exercisable	**Weighted average exercise price**	**Exercisable**	**Weighted average exercise price**	**Exercisable**
£0 to £2					
£2 to £3			**127,058**	**245.01**	
£3 to £4			**202,368**	**321.00**	
£4 to £5					**8,810**
£5 to £6			**678,500**	**510.00**	**961,292**
£6 to £7					**3,433**
£7 to £8					**335,045**

£8 to £9	**941,500**	**876.52**	
	1,949,426		**1,308,580**

The weighted average fair value calculations for options granted during 2004 are based on the followin

	Executive Share Plan	Executive schemes	SAYE schemes
Risk-free interest rate	**4.41%**	**4.57%**	**4.79%**
Expected life	**2.6 years**	**5 years**	**3.9 years**
Expected volatility	**30%**	**30%**	**30%**
Expected dividend yield	**7.11%**	**7.5%**	**7.5%**

Details of options outstanding in respect of stock compensation plans operated prior to 1 January 1995

2004	Number of options at 31 December	Weighted average option price at 31 December (pence)	Number of shares as to which options were exercisable at 31 December	Number of options lapsed during year	Number of options exercised during year
Lloyds TSB Group plc Executive Share Option Scheme				**38,937**	**48,952**
Lloyds Bank plc Senior Executives UK Share Option Scheme 1987					**52,728**
				38,937	**101,680**

50 Differences between UK GAAP and US GA

2003	Number of options at 31 December	Weighted average option price at 31 December (pence)	Number of shares as to which options were exercisable at 31 December	Number of options lapsed during year	Number of options exercised during year
Lloyds TSB Group plc Executive Share Option Scheme (1989)					48,680
Lloyds TSB Group plc Executive Share Option Scheme	87,889	282.50	87,889		23,008
Lloyds Bank Plc Senior Executives UK Share Option Scheme 1987	52,728	200.70	52,728		35,152
	140,617		140,617		106,840

e Earn

Basic earnings per share under US GAAP differ from UK GAAP (see note 11) only to the extent that income ca
US GAAP differs fro

Diluted earnings per share measures the effect that existing share options would have on the basic earnings per sha
to be exercised, by increasing the number of ordinary shares, although any options that are anti-dilutive are excl
calculation. An option is considered anti-dilutive when the value of the exercise price exceeds the market price. Un
certain incentive plan shares, for which the trustees have waived all dividend and voting rights, have also been
calculation of diluted earn

	2004	2003	2002
Basic			
Net income (US GAAP)	**£ 1,508m**	£ 3,231m	£ 1,753m
Weighted average number of ordinary shares in issue	**5,590m**	5,581m	5,570m
Earnings per share	**27.0p**	57.9p	31.5p
Diluted			
Net income (US GAAP)	**£ 1,508m**	£ 3,231m	£ 1,753m
Weighted average number of ordinary shares in issue	**5,625m**	5,600m	5,600m
Earnings per share	**26.8p**	57.7p	31.3p

The weighted average number of anti-dilutive shares excluded from the calculation of diluted earnings per share
at 31 December 2004 (2003: 71 million; 200

Under UK GAAP, the Group uses a variety of financial instruments to hedge exposures in its banking book; th
accounted for on an accruals basis, in line with the underlying instruments being hedged. Any gains or losses tha
these instruments were carried at market value are therefore

For the purposes of US GAAP, the Group believes that derivatives that are hedges under UK GAAP do not qu
accounting under the provisions of SFAS No. 133; prior to the adoption of SFAS No. 133, such exposures did
hedge accounting under US GAAP either and therefore there was no transition adjustment in respect of
Accordingly these exposures have been marked to market, with the resulting gains and losses taken directl

addition, an adjustment to measure embedded derivatives that are not deemed to be clearly and closely related to
host contract at their fair value has been included within unrecognised gains and losses during the year. The move
GAAP adjustment arising is sum

	2004	2003	2002
	£m	£m	£m
Balance at 1 January	**76**	(98)	(417)
Exchange and other adjustments	**3**	(10)	14
Net (losses) gains recognised in the year	**(3)**	150	396
Unrecognised (losses) gains arising during the year	**(57)**	22	(91)
	(60)	172	305
Adjustments on disposal of businesses		12	
Balance at 31 December	**19**	76	(98)

These activities are discussed more fully on pages 58 to 60 and in note 47

The application of EITF 02-3 Issues Involved in Accounting for Derivative Contracts Held for Trading Purpos
Involved in Energy Trading and Risk Management Activities , which does not allow the recognition of an unreal
at the inception of a derivative contract unless the models used to value these contracts use market observable inpu
an impact on Lloyds TSB Group s US GAAP financial statements. The fair value of these contracts is calcula
prices in an active market or prices where the fair value is determined using a valuation technique that incorpor

50 Differences between UK GAAP and US GA

g Investm

Under UK GAAP investment securities are held at amortised cost except within the long-term insurance busine
securities are held at market value, with unrealised gains and losses taken to the income statement in the perio

Under SFAS No. 115 all debt securities and equity shares are classified and disclosed as either he
available-for-sale or trading. Those classified as held-to-maturity are measured at amortised cost. Available-fo
are measured at fair value with unrealised gains and losses excluded from the income statement and reporte
minority interests as a separate component of other comprehensive income. Trading securities are measured at
unrealised gains and losses included in the income statement. Debt securities and equity shares categorised as av
under US GAAP give rise to an adjustment to accumulated other comprehensive income as detaile

The disclosures for investment securities in the tables below include those held within the banking business as re
17 and 18, those held within the insurance business and those included as a result of consolidation under the pro
46-R (see note l). Securities held by the general insurance business are included within notes 17 and 18 under UK
purposes of US GAAP they are classified within insurance activities. At 31 December 2004, the book and market
securities were £386 million (2003: £396 million). The Group had no held-to-maturity securities at 31 Decem
D

	2004
	£m
Proceeds from sales and maturities of available-for-sale investment debt securities and equity shares	**10,873**
Gross realised gains	**(155)**
Gross realised losses	**13**
Net amount sold	**10,731**

Realised gains and losses are computed using the weighted average cost method. No gross gains (2003: £1
recorded on securities transferred from available-for-

2004	Amortised cost £m	Gross unrealised gains £m	Gross unrealised losses £m
Available-for-sale investment securities:			
UK government	**775**	**82**	
Securities of the US treasury and US government agencies	**1,665**	**4**	**(3)**
European governments	**15**	**1**	
Other government securities	**994**	**22**	**(1)**
Other public sector securities	**106**	**3**	**(1)**
Bank and building society certificates of deposit	**1,901**	**2**	**(1)**
Corporate debt securities	**6,506**	**211**	**(9)**
Mortgage backed securities	**2,890**	**11**	
Other asset backed securities	**3,826**	**16**	**(14)**
Other debt securities	**887**	**2**	
Debt securities	**19,565**	**354**	**(29)**
Equity shares	**29**	**25**	
	19,594	**379**	**(29)**
Of which:			
Banking	**13,731**	**55**	**(19)**

Insurance	**5,863**	**324**	**(10)**
	19,594	**379**	**(29)**

50 Differences between UK GAAP and US GA

2003	Amortised cost £m	Gross unrealised gains £m	Gross unrealised losses £m
Available-for-sale investment securities:			
UK government	734	46	(3)
Securities of the US treasury and US government agencies	1,624	13	(11)
European governments	15	1	
Other government securities	807	22	(3)
Other public sector securities	75	1	(2)
Bank and building society certificates of deposit	2,515		
Corporate debt securities	5,483	152	(33)
Mortgage backed securities	2,211	2	(1)
Other asset backed securities	3,942	12	(3)
Other debt securities	1,313	3	(1)
Debt securities	18,719	252	(57)
Equity shares	35	97	(1)
	18,754	349	(58)
Of which:			
Banking	13,380	133	(24)
Insurance	5,374	216	(34)
	18,754	349	(58)

For those investments on which there is a gross unrealised loss at 31 December 2004, the fair values and analysi
which there has been a loss position

	Period investment has been in an unrealised loss position				
	Less than one year		Greater than one year		Total
2004	Unrealised losses £m	Fair value £m	Unrealised losses £m	Fair value £m	Unrealised losses £m
Securities of the US treasury and US government agencies	**3**	**323**			**3**
Other government securities		**3**	**1**	**21**	**1**
Other public sector securities			**1**	**17**	**1**
Bank and building society certificates of deposit	**1**	**1,382**			**1**
Corporate debt securities	**1**	**63**	**8**	**329**	**9**
Other asset backed securities		**7**	**14**	**395**	**14**

Total	**5**	**1,778**	**24**	**762**	**29**

At 31 December 2003, the aggregate amount of unrealised losses outstanding for less than 12 months was £
related to investment securities with a fair value of £651 million; the aggregate amount of unrealised losses outsta
than 12 months was £18 million, and related to investment securities with a fair value o

The changes in fair value in 2004 and 2003 are primarily caused by movements in interest rates rather than move
ratings. Accordingly, Lloyds TSB Group considers that these unrealised losses are temporary in nature and
charge has been made for other-than-temporary impairment. The amortised cost includes provisions of £117 milli
million) that have been raised under UK GAAP; these provisions are considered as permanent under US GAAP
provisions are dee

	Due within 1 year £m	Due between 1 and 5 years £m	Due between 5 and 10 years £m	Due over 10 years £m	No fixed maturity £m	Total £m
Maturity of investment debt securities:						
2004						
Available-for-sale						
Amortised cost	**3,228**	**7,642**	**4,222**	**4,091**	**382**	**19,565**
Fair value	**3,230**	**7,620**	**4,313**	**4,316**	**411**	**19,890**
2003						
Available-for-sale						
Amortised cost	3,011	7,121	4,361	4,078	148	18,719
Fair value	3,010	7,100	4,433	4,216	155	18,914

50 Differences between UK GAAP and US GA

h Own shares

Additional own shares held of £154 million at 31 December 2004 (2003: £154 million) have been netted off aga
Paid-in Capital within Shareholders equity in accordance with ARB No. 51. This relates to the amount of Lloyds
shares held within the long-term assurance funds that have not been deducted from equity und

The adjustment to shareholders funds on page F-64 of £185 million (2003: £195 million) also includes removal
respect of free shares. Under UK GAAP such accruals are included v

i Def

In accordance with the provisions of SFAS No. 109, the US GAAP deferred

	2004	2003
	£m	£m
Deferred tax liabilities		
Assets used in the business	**38**	10
Assets leased to customers	**1,625**	1,593
Transfers from long-term business fund (see note 9)	**230**	110
Value of business acquired	**374**	496
Deferred acquisition costs	**343**	267
Unrealised gains on investment securities	**20**	
Pension profit recognition	**42**	50
Other	**229**	263
Total liabilities	**2,901**	2,789
Deferred tax assets		
Goodwill	**(315)**	(315)
Loan loss allowance	**(84)**	(122)
Tax losses:		
Pensions business	**(1,457)**	(1,353)
Other	**(459)**	(394)
Specific loan loss allowance	**(10)**	(22)
Pension schemes	**(564)**	(508)
Unrealised losses on trading securities		(15)
Other	**(508)**	(317)
Total assets	**(3,397)**	(3,046)
Valuation allowance	**1,866**	1,701
US GAAP deferred tax liability	**1,370**	1,444

Valua

Scottish Widows has a significant with-profits pensions business. This business is subject to UK corporation tax o
notional return determined by the UK taxation authorities. To the extent that the actual return from the business
notional return, tax losses accumulate which may be carried forward and offset against excess returns in future y
of these losses at 31 December 2004 was £1,238 million (2003: £1,140 million). Excess returns do not occur re
only likely to be triggered in the future if interest rates increase significantly or there is significant volatility in the

actuarial valuation basis alters significantly. Given the current low interest rate environment and in view of t
actuarial valuation basis is currently considered unlikely to alter significantly, in the opinion of management i
than not that these losses will not be realised and therefore a full valuation allowance has been established again

A further valuation allowance of £313 million (2003: £246 million) has been established against other tax losse
expected to be utilised in the foreseeable future. Under UK tax legislation, certain capital losses may only b
taxable gains of a particular type and consequently the associated deferred tax assets are less certai

Assessments have been made as to the likelihood of gains arising that can be offset against these losses and, to the
more likely than not that these losses will not be realised, appropriate valuation allowances have been establishe
other tax losses, the pattern of utilisation of losses over previous years has been reviewed together with ga
realised in the foreseeable future and an appropriate valuation allowance established to the extent that it is more
that these losses will

A deferred tax asset of £315 million (2003: £315 million) has been recognised as a result of the different acc
treatments for goodwill arising upon acquisition of companies and businesses. There is currently no expect
businesses will be disposed of and therefore in the opinion of management it is more likely than not that these los
realised. Accordingly, a full valuation allowance has been established again

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50 Differences between UK GAAP and US GA

The Group has the following tax losses available to be carried forward and offset against the future taxable pr
subsidiaries. The majority of the losses may be carried forwa

	2004	2003
	£m	£m
Trading losses	**1,775**	1,741
Capital losses	**1,408**	1,082
Pensions business	**4,127**	3,800
	7,310	6,623

US GAAF

The following tables reconcile the UK GAAP tax charge and deferred tax liability to the US GAAP tax charge a
liability as disclosed on pages

	2004	2003
	£m	£m
UK GAAP Profit and loss tax charge	**1,004**	1,025
Deferred tax US GAAP	**(4)**	(21)
Deferred tax US GAAP reconciling items, excluding tax relating to changes in accounting principles*	**(72)**	(83)
Disposed businesses		(89)
US GAAP Profit and loss tax charge for continuing operations	**928**	832

*The £74 million UK / US GAAP adjustment shown on page F-64 comprises the above £72 million reduction in the tax cha
continuing operations together with a tax credit of £2 million in respect of the US GAAP adjustments to the loss on dispos

	2004	2003
	£m	£m
UK GAAP Deferred tax liability	**1,473**	1,376
Deferred tax UK pension asset	**(956)**	(916)
Deferred tax US GAAP	**35**	39
Deferred tax - US GAAP reconciling items	**1,031**	1,231
Other items*	**(213)**	(286)
US GAAP Deferred tax liability	**1,370**	1,444

* Under UK GAAP applicable to banking groups, the Group accounts for its life assurance operations using the embedded val
accounting and the shareholder s and policyholders interests are accounted for as one-line items. Under US GAAP the cor
shareholder s and policyholders interests are separately disclosed and as a result of this reclassification the total deferred ta
decreased. There is no impact on the underlying shareholder s equity.

j Significant Group concentrations

SFAS No. 107 Disclosure about Fair Value of Financial Instruments states that concentrations of credit risk ex
counterparties are engaged in similar activities and have similar economic characteristics that would cause their
contractual obligations to be similarly affected by changes in economic or other conditions. The Group s exposur
concentrated in the United Kingdom where the majority of the Group s activities are conducted and is detailed fu

k Repos, reverse repos and stocklendin

The Group enters into reverse repo transactions which are accounted for as collateralised loans. It is the Group
collateral which is at least equal to the amount loaned. At 31 December 2004, the fair value of collateral accepted
repo transactions that the Group is permitted by contract or custom to sell or repledge was £12,364
£2,077 million). Of this, £3,910 million (2003: £255 million) was sold or repledged as at 31 December 2004. The
been held for continuing use within the business. The Group also enters into repos which are accounted
borrowings. As at 31 December 2004, the carrying value of assets that have been pledged as collateral under re
where the secured party is permitted by contract or custom to sell or repledge was £117 million (2003: £1,71
carrying value of assets that are subject to stocklending arrangements is £373 million all of which the secured pa
by contract or custom to s

50 Differences between UK GAAP and US GA

l Variable i

In January 2003, the FASB released FIN 46 Consolidation of Variable Interest Entities and subsequentl
version, FIN 46-R, in December 2003. FIN 46-R changes the method of determining whether certain entities shou
in the Group s consolidated financial statements. An entity is called a variable interest entity (VIE) and
requirements of FIN

equity that is insufficient to permit the entity to finance its activities without additional subordinated support; o

equity investors that cannot make significant decisions about the entity s operations, or that do not have the ob
absorb the expected losses or the right to receive the expected residual returns of the entity or;

some equity investors whose obligations to absorb the expected losses or rights to receive the expected residua
disproportionate to those voting rights and substantially all of the entity s activities are conducted on behalf of
investors.

A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that has a majority
losses or a majority of the expected

The provisions of FIN 46-R have been applied immediately by Lloyds TSB Group to VIEs created on or after 1
for VIEs created before that date, FIN 46-R became effective in 2004. The implementation of FIN 46-R in full has
consolidation of additional VIEs, which has increased total assets by £4,476 million, reduced shareho
£316 million and increased profit before tax and accounting changes

The transition rules contained within FIN 46-R require that if initial application of the requirements of FIN46-R
consolidation of an entity created before 31 December 2003 the difference between the net amount added to th
and the amount of any previously recognised interest in the newly consolidated entity shall be recognised as
effect of a change in accounting principle. This has reduced profit before tax by £330 million and pr

The nature of the activities of VIEs in which Lloyds TSB Group has a significant variable i

Fin

These entities have predominantly pre-determined activities, the nature of which are primarily lending and inves
undertaken in order to improve the efficiency of Lloyds TSB Group s normal lending and deposit taking activities
whether to enter into these structures, careful consideration has been given to ensure the structures meet Lloyds T
management and contro

Leasi

These relate to limited partnerships which have been created with a third party investor to acquire significant capi
are then leased out to third parties, typically on an

Securitisation c

These vehicles are investment-purchasing companies which purchase asset-backed securities (which are backe
assets) from the market and initially from Lloyds TSB Group. These vehicles form part of Lloyds TSB
securitisation conduit and are consolidated under UK GAAP as these are considered to be directly controlled

Venture cap

These relate to medium-sized entities which typically have minimal equity investment, with the bulk of the fina
by the Group in the form of subordinated lending. Without this lending, the entities would not have sufficient ca

Open Ended Investment Companies (OEIC s)

These types of vehicle operate in a similar way except that an OEIC is legally constituted as a limited company. A
invests cash pooled from many investors in a wide range of equity shares, corporate bonds or government s
investor has units in the fund proportionate to their cash investment. These units are of equal value and can b
Their value rises and falls depending on the performance of the underlying investments. The funds are managed b

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50 Differences between UK GAAP and US GA

The following table represents the carrying amounts and classification of consolidated assets that are collatera operations that are (1) already consolidated under UK and US GAAP which would continue to be consolidated ur and (2) those VIEs which fall to be consolidated ur

31 December 2004	Currently consolidated VIEs £m	VIEs consolidated under FIN 46-R £m	Total £m
Cash		**30**	**30**
Tangible fixed assets	**1,742**	**160**	**1,902**
Trading and other investments		**389**	**389**
Investment securities	**3,302**	**(290)**	**3,012**
Loans	**4,936**	**3,391**	**8,327**
Goodwill		**175**	**175**
Other assets	**130**	**621**	**751**
Total assets of consolidated VIEs	**10,110**	**4,476**	**14,586**

The total assets of consolidated VIEs is attributable to the following typ

31 December 2004	Currently consolidated VIEs £m	VIEs consolidated under FIN 46-R £m	Total £m
Financing vehicles	**5,107**		**5,107**
Leasing partnerships	**1,791**		**1,791**
Securitisation conduit vehicles	**3,212**	**1,360**	**4,572**
Venture capital enterprises		**546**	**546**
OEICs and unit trusts		**2,570**	**2,570**
	10,110	**4,476**	**14,586**

The following table shows the total assets and maximum exposure to loss, as at 31 December 2004, for those Lloyds TSB Group has a significant variable interest in a VIE but is not determined to be the prima

	Total assets £m	Maximum exposure to loss £m
Venture capital enterprises	**694**	**694**

Under the transition rules of FIN 46-R, as at 31 December 2003 Lloyds TSB Group was not required to consolidat before 1 February 2003. At 31 December 2003, the additional total assets consolidated under FIN 46-R for thos after 1 February 2003 amounted to £86 million, relating to venture capital enterprises. VIEs that were fully cons UK GAAP which would continue to be consolidated under US GAAP had total assets at 31 December 2003 of

The FASB continues to provide additional guidance on implementing FIN 46-R through FASB Staff Positions. A is issued, the Group will continue to review the status of VIEs it is involved with and as a result of any chang additional VIEs may ultimately be required to b

Lloyds TSB Group utilises a number of different types of lending-related financial instruments, such as co
guarantees, to meet the financing needs of its customers. These are discussed more fully in note 46. Most of these
commitments expire without being drawn. Under the provisions of FIN 45, which establishes accounting
requirements for guarantors, a liability is required to be recognised for the fair value of guarantees issued from 1
The fair value of the obligation is, in the substantial majority of cases, the amount of premium received under th
adoption of FIN 45 did not have a material impact on Lloyds TSB Group s US GAAP fina

n Trust-prefer

The trust-preferred securities that are classified as minority interests under UK GAAP are reclassified as debt
Group s US GAAP financial statements. At 31 December 2004, these amounted to £550 million (2003: £549 mil
details of these securities can be found in note 39. In the income statement, the amount included in minority inte
GAAP of £42 million (2003: £42 million) has been reclassified as interest expense un

o Loa

At 31 December 2004, the Group estimated that there was no difference between the carrying value of its loan p
basis of SFAS No. 114 and its value in the UK GAAP financial statements. During the year ended 31 December
loans, including those excluded from SFAS No. 114, averaged £1,223 million (2003: £

50 Differences between UK GAAP and US GA

p Insur

The following tables summarise the adjustments to the profit and loss account and balance sheet which woul application of US GAAP to the Group s insur

Profit and loss account	Note	**2004 Life £m**	**2004 General £m**	**2004 Total £m**	2003 Life £m	2003 General £m	2003 Total £m	2002 Life £m	2002 Gene £m
Income from long-term assurance business	i)	**(715)**		**(715)**	(453)		(453)	294	
Other interest and dividends	i)	**2,063**		**2,063**	1,331		1,331	1,187	
Insurance premiums	i)	**1,317**		**1,317**	1,551		1,551	1,525	
Securities trading and other income	i)	**3,033**		**3,033**	1,020		1,020	(2,101)	
Policyholder benefits and claims expense	i)	**(4,230)**		**(4,230)**	(2,814)		(2,814)	(1,394)	
Movement in undistributed policyholder allocations		**(789)**		**(789)**	118		118	1,588	
Insurance underwriting, operating and acquisition expenses	i)	**(462)**		**(462)**	(676)	2	(674)	(760)	2
Depreciation	i)	**(13)**		**(13)**	(15)		(15)	(16)	
Amortisation of value of long-term assurance business acquired	ii)	**(243)**		**(243)**	(188)		(188)	(725)	
Revenue and expense recognition			**(13)**	**(13)**	(13)	(33)	(46)		(3)
Equalisation provision			**10**	**10**		10	10		10
Total adjustment before accounting changes		**(39)**	**(3)**	**(42)**	(139)	(21)	(160)	(402)	9
Cumulative effect of change in accounting principles (gross)		**(449)**		**(449)**					
Total adjustments before tax		**(488)**	**(3)**	**(491)**	(139)	(21)	(160)	(402)	9

Balance sheet	Note	**2004 Life £m**	**2004 General £m**	**2004 Total £m**	2003 Life £m	2003 Gener £m
Long-term assurance business attributable to the shareholder	iii)	**(6,781)**		**(6,781)**	(6,481)	
Long-term assurance assets attributable to policyholders	iii)	**(54,764)**		**(54,764)**	(50,078)	
Cash and due from banks		**5,877**		**5,877**	3,587	
Trading and other investments	iv)	**42,686**		**42,686**	19,052	
Investment securities		**5,791**		**5,791**	5,160	
Tangible fixed assets		**141**		**141**	148	
Deferred acquisition costs	v)	**1,152**	**(25)**	**1,127**	902	(11)
Value of long-term assurance business acquired	ii)	**1,587**		**1,587**	2,094	
Separate account assets	viii)				22,494	

Other assets		**646**		**646**	763	
Indebtedness of related parties		**2,494**		**2,494**	2,200	
Long-term assurance liabilities to policyholders	iii)	**54,764**		**54,764**	50,078	
Debt securities in issue		**(132)**		**(132)**	(256)	
Policyholder liabilities	vi)	**(51,790)**		**(51,790)**	(24,946)	
Undistributed policyholder allocations	vii)	**(1,505)**		**(1,505)**	(1,772)	
Equalisation provision			**61**	**61**		51
Other liabilities		**(346)**		**(346)**	(235)	
Separate account liabilities	viii)				(22,494)	
Indebtedness to related parties		**(312)**		**(312)**	(322)	
Total adjustments before tax		**(492)**	**36**	**(456)**	(106)	40

Adoptio

In 2004, Lloyds TSB Group adopted SOP 03-1 Accounting and Reporting by Insurance Enterprises for Certai Long-Duration Contracts and for Separate Accounts . Prior to the issue of SOP 03-1, the unit-linked investment c of the Group was classified as separate account and was held at fair value. SOP 03-1 sets stringent criteria for t account classification which UK unit-linked funds are unable to meet. As a consequence, the assets and liab classified as separate account are now accounted for in the same way as other general account assets (as prescribe 60) and general acc

50 Differences between UK GAAP and US GA

Transition rules relating to the implementation of SOP 03-1 require that no prior year adjustments are made and th balance sheet impact is reflected in the current year profit and loss account as a cumulative effect of chang principle. This has reduced profit before tax at 31 December 2004 by £449 million and profit after tax by £30 reduction primarily relates to the effect of carrying the unit-linked investment properties at depreciated cost ra value and the write-down by £264 million of the value of business acquired as a result of the new Guaranteed reservin

i) Reve

Under UK GAAP applicable to banking groups, the Group accounts for its life assurance operations using the e basis of accounting. An embedded value is an actuarially determined estimate of the economic value of company, excluding any value which may be attributed to future new business. The embedded value is the sum o of the life assurance company and the present value of the in-force business. The value of the in-force business i projecting future net cash flows using appropriate economic and actuarial assumptions and the result discounted reflects the shareholders overall risk premium. The change in the embedded value during any reporting period dividends declared or capital injected, and grossed up at the underlying rate of corporation tax, is reflected in th and loss account as income from long-term assu

US GAAP requires that results of the life assurance business should be reported on a gross basis and reflecte captions in the income statement. Premiums from conventional with-profits policies and other protection-typ policies are recognised as revenue when due from the policyholder. Premiums from unitised with-profits life ins and investment contracts, which have minimal mortality risk, are reported as increases in policyholder account received. Revenues derived from these policies consist of mortality charges, policy administration char management fees and surrender charges that are deducted from policyholders accounts and are disclosed with

Under US GAAP, premiums and policy charges received that relate to future periods are deferred until the perio relate. For limited payment annuities, the excess of the gross premium over the US GAAP net benefit premium amortised in relation to the expected future benefit payments. For investment contracts, policy charges that benefi are deferred and amortised in relation to expecte

ii) Value of long-term assurance bu

Under US GAAP the value of the long-term assurance business acquired (VOBA) is calculated at acquisit future earnings to a present value. In subsequent years the VOBA is amortised over the premium recogn with-profits life insurance and other protection-type insurance policies using assumptions consistent wi computing policyholder benefit provisions. VOBA for investment-type policies and unitised insurance policies relation to expected gross profits. Expected gross profits are evaluated regularly against actual experience and rev allow for the effect

	2004	2003
	£m	£m
Balance at 1 January	**2,094**	2,282
Effect of adoption of SOP 03-1	**(264)**	
Interest accrued on unamortised balance	**158**	255
Amortisation	**(401)**	(443)
Balance at 31 December	**1,587**	2,094

Over the next 5 years the amount of VOBA expected to be amortised prior to inte

200

200

200

200

2009: £107

iii)

Under UK GAAP applicable to banking groups, in order to reflect the different nature of the shareholder s a
interests in the long-term assurance business these are shown separately as one-line items in the Group s balance
of the long-term assurance business attributable to the shareholder comprises the net assets of the life assurance
the value of the in-force business. The assets attributable to policyholders mainly comprise the investments held i
assurance funds either on behalf of policyholders, or which have not yet been allocated to either the polic
shareholder. Liabilities to policyholders mainly comprise policyholder ben

Under US GAAP the constituent parts of the shareholder s and policyholders interests in the long-term assu
separately disclosed. Significant differences also arise regarding the valuation of the constituent assets and liabil
discussed further in the notes

50 Differences between UK GAAP and US GA

Under UK GAAP applicable to banking groups, debt securities and equity shares held within the long-term assu
included in the Group s balance sheet at market value; investment properties are included at ex

Under US GAAP, debt securities are classified as trading, available-for-sale or held-to-maturity; equity shar
classified as trading or available-for-sale. Securities classified as trading are carried at current market v
recognised in the income statement. Securities classified as available-for-sale are carried at current market value,
gains and losses arising are held as a separate component of shareholders equity. Securities classified as held
carried at amortised cost. In addition, US GAAP requires that all freehold and long leasehold properties shou
depreciate

For those securities classified as available-for-sale, the disclosures required under SFAS No. 115 are presented in
the banking business on page

v) Deferred ac

Under UK GAAP applicable to banking groups, the cost of acquiring new and renewal life assurance business i
the embedded value calculati

Under US GAAP the costs incurred by the Group in the acquisition of new and renewal life insurance business
These consist of the acquisition costs, principally commissions, marketing and advertising and the admi
associated with the processing and policy issuance, typically underwriting. Together these are capitalised
amortised in relation to the profit margin of the po

Deferred acquisition costs for conventional with-profits life insurance and other protection type insurance policie
in relation to premium income using assumptions consistent with those used in computing policyholder bene
Investment, universal life, and separate account contracts are amortised in proportion to the estimated gross prof

vi) Policyh

Under UK GAAP applicable to banking groups, future policyholder benefit provisions included in the Group s b
calculated using either net or gross premium methods for conventional with-profits life insurance and other
policies and are mainly based on fund value amongst other methods for unitised with-profits insuran
investment-type policies. Net premiums are calculated using assumptions for interest, mortality, morbidity and e
assumptions are determined as prudent best estimates at the da

Under US GAAP, for unitised with-profits insurance and other investment-type policies, the liability is rep
policyholder s account balance before any applicable surrender charges. Policyholder benefit liabilities
with-profits life insurance and other protection-type insurance policies are developed using the net level prem
Assumptions for interest, mortality, morbidity, withdrawals and expenses were prepared using best estimates a
issue (or date of company acquisition by the Group, if later) plus a provision for adverse deviation based on Gro
Interest assumptions range from 4 per cent

vii) Undistributed policyhol

With-profits policies entitle the policyholder to participate in the surplus within the with-profits life fund o
company which issued the policy. Regular bonuses are determined annually by the issuing company s Appointed
board of directors. The bonuses that may be declared are highly correlated to the overall performance of the un
and liabilities of the fund in which the contracts participate and are the subject of normal variability and vola
bonuses are paid on maturity of the contract and are designed to provide policyholders with a share of the total
the issuing company during the period

The contract for conventional with-profits business written into the with-profits fund provides that approximately
the surplus arising from the net assets of the fund is allocated to policyholders in the form of annual bonuse
with-profits business written into the with-profits fund all of the surplus is allocated to policyho

Under UK GAAP all amounts in the with-profits fund not yet allocated to policyholders or shareholders are
liabilities attributable to policyholders on the Group

Under US GAAP a liability is established for undistributed policyholder allocations. The excess of assets over l
with-profits fund is allocated to the policyholders and shareholders in accordance with the proportions pr
contracts. The remaining liability comprises the obligation of the insurance company to the

viii) Separate account assets

Under UK GAAP, segregated accounts are established for policyholder business for which policyholder benefit
partly determined by reference to specific investments or to an investment-related index. This is referred to as li
Linked business can either be unit-linked, property-linked or index-linked. In the case of the unit-linked and p
business the policyholders bear the investment risk. The Group bears the investment risk relating to the index-li

50 Differences between UK GAAP and US GAA

In 2004, Lloyds TSB Group adopted SOP 03-1. Prior to the issue of SOP 03-1, the unit-linked investment contr
the Group was classified as separate account and was held at fair value. SOP 03-1 sets stringent criteria for t
account classification which UK unit-linked funds are unable to meet. As a consequence, the assets and liab
classified as separate account are now accounted for in the same way as other general account assets (as prescribe
60) and general acc

51 Parent compa

a Company profit an

	2004	2003	2002
	£m	£m	£m
Net interest income	**20**	24	15
Dividends received from group undertakings	**1,913**	1,911	1,908
Total income	**1,933**	1,935	1,923
Operating expenses	**(46)**	(43)	(39)
Profit on ordinary activities before tax	**1,887**	1,892	1,884
Taxation credit (charge)	**34**	(12)	28
Profit on ordinary activities after tax	**1,921**	1,880	1,912
Dividends	**(1,914)**	(1,911)	(1,908)
Profit (loss) for the year	**7**	(31)	4

b Company

	2004	2003
	£m	£m
Fixed assets		
Investments		
Shares in group undertakings	**11,080**	10,753
Loans to group undertakings	**1,723**	1,723
	12,803	12,476
Current assets		
Debtors falling due within one year		
Amounts owed by group undertakings	**1,390**	1,387
Other debtors	**97**	88
Cash balances with group undertakings	**208**	362
	1,695	1,837
Current liabilities		
Amounts falling due within one year		
Amounts owed to group undertakings	**1,741**	1,913
Other creditors	**107**	106
Dividend payable	**1,315**	1,314
	3,163	3,333
Net current liabilities	**(1,468)**	(1,496)
Total assets less current liabilities	**11,335**	10,980
Creditors: amounts falling due after more than one year		
Loan capital	**1,358**	1,356
Net assets	**9,977**	9,624
Capital and reserves		
Called-up share capital	**1,419**	1,418
Share premium account	**1,145**	1,136
Revaluation reserve	**5,014**	4,687
Profit and loss account	**2,399**	2,383
Shareholders funds (equity and non-equity*)	**9,977**	9,624

* Shareholders funds at 31 December 2004 include £100 of non-equity preference share capital

51 Parent company disclosur

c Company cash f

	2004	2003
	£m	£m
Net cash inflow from operating activities	**50**	71
Returns on investments and servicing of finance:		
Dividends received from group undertakings	**1,913**	1,908
Interest paid on subordinated liabilities (loan capital)	**(94)**	(96)
Net cash inflow from returns on investments and servicing of finance	**1,819**	1,812
Taxation:		
UK corporation tax (paid) received	**(122)**	119
Capital expenditure and financial investment:		
Capital lending to subsidiaries		
Disposal of subsidiary undertakings	**1**	
Net cash inflow (outflow) from capital expenditure and financial investment	**1**	
Equity dividends paid	**(1,913)**	(1,908)
Net cash (outflow) inflow before financing	**(165)**	94
Financing:		
Cash proceeds from issue of ordinary share capital and sale of own shares held in respect of employee share schemes	**11**	32
Issue of subordinated liabilities (loan capital)		
Repayments of subordinated liabilities (loan capital)		(14)
Net cash inflow from financing	**11**	18
(Decrease) increase in cash	**(154)**	112

d Reconciliation to US GAAP

	2004	2003
	£m	£m
Shareholders funds (UK GAAP)	**9,977**	9,624
Dividends receivable	**(1,314)**	(1,314)
Dividends payable	**1,315**	1,314
Revaluation of shares in group undertakings	**1,480**	2,268
Shareholders equity (US GAAP)	**11,458**	11,892

e Reconciliation of the movements in shareholders equity under US GAAP

	2004	2003
	£m	£m
Profit after tax (UK GAAP)	**1,921**	1,880
Dividends receivable		(3)
Share compensation schemes	**(35)**	(113)
Net income (US GAAP)	**1,886**	1,764
Dividends paid	**(1,913)**	(1,908)
	(27)	(144)
Issue of shares	**10**	45
Movements in relation to own shares	**8**	(6)
Share compensation schemes	**35**	113
Revaluation of shares in group undertakings	**(460)**	1,694

	(434)	1,702
Shareholders equity at 1 January	**11,892**	10,190
Shareholders equity at 31 December	**11,458**	11,892

G

Term used	US equivalent or brief description
Accounts	Financial statements.
Associates	Long-term equity investments accounted for by the equity method.
ATM	Automatic Teller Machine.
Attributable profit	Net income.
Broking	Brokerage.
Building society	A building society is a mutual institution set up to lend money to its mem purchases. See also Demutualisation .
Called-up share capital	Ordinary shares, issued and fully paid.
Contract hire	Leasing.
Cashpoint	Automatic Teller Machine.
Creditors	Payables.
Dealing	Trading.
Debtors	Receivables.
Demutualisation	Process by which a mutual institution is converted into a public limited c
Economic profit	See definition under Operating and financial review and prospects Ec
Embedded value	See definition under Operating and financial review and prospects Cr policies .
Endowment mortgage	An interest-only mortgage to be repaid by the proceeds of an endowment policy which is assigned to the lender providing the mortgage. The sum i is payable on maturity or upon the death of the policyholder, is used to re mortgage.
Fees and commissions payable	Fees and commissions expense.
Fees and commissions receivable	Fees and commissions income.
Finance lease	Capital lease.
Freehold	Ownership with absolute rights in perpetuity.
Guaranteed annuity option	See Operating and financial review and prospects Risk management exposures in the insurance businesses .
Hire purchase	See Description of business Business and activities Wholesale and Banking Asset finance .
Interchange	System allowing customers of different Automatic Teller Machine (ATM use any ATM that is part of the system.
Interest payable	Interest expense.
Interest receivable	Interest income.
ISA	Individual Savings Account.
Leasehold	Land or property which is rented from the owner for a specified term und the expiry of the term the land or property reverts back to the owner.
Lien	Under UK law, a right to retain possession pending payment.
Life assurance	Life insurance.
Loan capital	Long-term debt.
Members	Shareholders.
Memorandum and articles of association	Articles and bylaws.
National Insurance	A form of taxation payable in the UK by employees, employers and the s used to fund benefits at the national level including state pensions, medic through the National Health Service (NHS), unemployment and maternity the UK s national social security system and ultimately controlled by HM Customs.
Nominal value	Par value.
One-off	Non-recurring.
Ordinary shares	Common stock.
Overdraft	A line of credit, contractually repayable on demand unless a fixed-term h agreed, established through a customer s current account.
Premises	Real estate.
Profit and loss account	Income statement.
Profit and loss account reserve	Retained earnings.
Provisions	Reserves.
Regular premium	Premiums which are payable throughout the duration of a policy or for sc fixed period.

Reinsurance	The insuring again by an insurer of the whole or part of a risk that it has a with another insurer called a reinsurer.
Share capital	Capital stock.

Term used	US equivalent or brief description
Shareholders funds	Stockholders equity.
Share premium account	Additional paid-in capital.
Shares in issue	Shares outstanding.
Single premium	A premium in relation to an insurance policy payable once at the commer policy.
Tangible fixed assets	Property and equipment.
Undistributable reserves	Restricted surplus.
Unit trust	Mutual fund.
VaR	Value at Risk, see definition under Operating and financial review and p management Market risk Trading exposures from banking activities
Weighted sales	The sum of regular premiums plus one-tenth of single premiums paid by life insurance, pensions and unit trusts.
With-profits sub-fund	See Business Business and activities of Lloyds TSB Group Insuranc Life assurance, pensions and investments .

FORM 20-F CROSS-REFEREN

	Form 20-F Item Number and Caption	Location
Part I		
Item 1.	**Identity of Directors, Senior Management and Advisors**	
	A.Directors and senior management	Not applicable.
	B.Advisors	Not applicable.
	C.Auditors	Not applicable.
Item 2.	**Offer Statistics and Expected Timetable**	
	A.Offer statistics	Not applicable.
	B.Method and expected timetable	Not applicable.
Item 3.	**Key Information**	
	A.Selected Financial Data	Selected Consolidated Financial Data
	B.Capitalisation	Not required for annual report.
	C.Reason for the offer and use of Proceeds	Not applicable.
	D.Risk factors	Risk Factors
Item 4.	**Information on the Company**	
	A.History and development of the Company	Business
	B.Business overview	Business Overview
	C.Organisation structure	Lloyds TSB Group Structure
	D.Property, plant and equipment	Properties
Item 5.	**Operating and Financial Review and Prospects**	
	A.Operating results	Operating and Financial Review and Prospects
	B.Liquidity and capital resources	Operating and Financial Review and Prospects and Capital Resources
	C.Research and development, intellectual property	Not applicable.
	D.Trend information	Operating and Financial Review and Prospects Overview and Trend Information
	E.Off balance sheet arrangements	Operating and Financial Review and Prospects and capital resources Off balance sheet arranger
	F.Tabular disclosure of contractual obligations	Operating and Financial Review and Prospects and capital resources Liquidity sources
Item 6.	**Directors, Senior Management and Employees**	
	A.Directors and senior management	Management and Employees Directors and seni management
	B.Compensation	Management and Employees Compensation
	C.Board practices	Management and Employees Corporate goverr board and its committees
	D.Employees	Management and Employees Employees
	E.Share ownership	Management and Employees Share ownership
Item 7.	**Major Shareholders and Related Party Transactions**	
	A.Major shareholders	Major Shareholders and Related Party Transacti Major shareholders
	B.Related party transactions	Major Shareholders and Related Party Transacti Related party transactions
	C.Interests of experts and counsel	Not applicable.

	Form 20-F Item Number and Caption	Location
Item 8.	**Financial Information**	
	A. Consolidated Financial Statements	Consolidated Financial Statements Business Legal actions Dividends Operating and Financial Review and Prospec
	B. Significant changes	
Item 9.	**The Offer and Listing**	
	A. Offer and listing details	Listing Information
	B. Plan of distribution	Not applicable.
	C. Markets	Listing Information
	D. Selling shareholders	Not applicable.
	E. Dilution	Not applicable.
	F. Expenses of the issue	Not applicable.
Item 10.	**Additional Information**	
	A. Share capital	Not required for annual report.
	B. Memorandum and Articles of Association	Memorandum and Articles of Association
	C. Material contracts	Not applicable.
	D. Exchange controls	Exchange Controls
	E. Taxation	Taxation
	F. Dividends and paying agents	Not applicable.
	G. Statements by experts	Not applicable.
	H. Documents on display	Where You Can Find More Information
	I. Subsidiary information	Lloyds TSB Group Structure
Item 11.	**Quantitative and Qualitative Disclosures about Market Risk**	Operating and Financial Review and Prospec management
Item 12.	**Description of Securities Other than Equity Securities**	
	A. Debt securities	Not applicable.
	B. Warrants and rights	Not applicable.
	C. Other securities	Not applicable.
	D. American Depositary Shares	Not applicable.
Part II		
Item 13.	**Defaults, Dividends Arrearages and Delinquencies**	Not applicable.
Item 14.	**Material Modifications to the Rights of Security Holders and Use of Proceeds**	Not applicable.
Item 15.	**Controls and Procedures**	Management and Employees Corporate Go
Item 16.	**[Reserved by the Securities and Exchange Commission]**	
	A. Audit committee financial expert	Corporate governance The board and its co Audit committee
	B. Code of ethics	Operating and Financial Review and Prospec management Governance, people and organi Standards of behaviour
	C. Principal accountant fees and services	Corporate governance The board and its co Audit committee Notes to the accounts Note 4 Administrat expenses
	D. Exemptions from the listing standards for audit committees	Not applicable
	E. Purchases of equity securities by the issuer and affiliated purchasers	Not applicable
Part III		
Item 17.	**Financial statements**	Not applicable.
Item 18.	**Financial statements**	Consolidated Financial Statements
Item 19.	**Exhibits**	List of Exhibits , Exhibits Index and the p following

LIST C

1. Memorandum and articles of association of Lloyds TSB Group plc.*
2. (i) Limited Partnership Agreements dated 4 February 2000, relating to the preference securities.*
   (ii) Trust Deed dated 25 April 2001, relating to the perpetual capital securities.*
4. (a)(i) Share Sale Agreement dated 24 October 2003 between Lloyds TSB Bank plc, Lloyds Bank Subsi
   Limited, Australia and New Zealand Banking Group Limited and ANZ Banking Group (New Zea
   Limited. p
   (b) (i) Service agreement dated 6 September 1991 between Lloyds TSB Bank plc and Michael E. Fairey
   (ii) Service agreement dated 9 February 2000 between Lloyds TSB Bank plc and Archie G. Kane.
   (iii) Service agreement dated 7 March 2000 between Lloyds TSB Bank plc and Michael D. Ross.
   (iv) Service agreement dated 19 October 2001 between Lloyds TSB Bank plc and J. Eric Daniels.
   (v) Service agreement dated 30 May 2002 between Lloyds TSB Bank plc and Philip R. Hampton.
   (vi) Service agreement dated 5 February 2003 between Lloyds TSB Bank plc and Stephen C. Targett.
   (vii) Service agreement dated 28 July 2000 between Lloyds TSB Group plc and Maarten A. Van den B
   (viii) Service agreement dated 7 April 2003 between Lloyds TSB Group plc and David P. Pritchard.
   (ix) Service agreement dated 30 May 2003 between Lloyds TSB Bank plc and Peter G.E. Ayliffe.
   (x) Service agreement dated 4 March 2004 between Lloyds TSB Bank plc and Helen A. Weir.p
   (xi) Service agreement dated 29 July 2004 between Lloyds TSB Bank plc and G. Truett Tate
   (xii) Service agreement dated 23 May 2005 between Lloyds TSB Bank plc and Teresa A. Dial

8.1 List of subsidiaries, their jurisdiction of incorporation and the names under which they conduct business.
12.1 Certification of J. Eric Daniels filed pursuant to 17 CFR 240.13a-14(a) and 15 U.S.C. 7241
12.2 Certification of Helen A. Weir filed pursuant to 17 CFR 240.13a-14(a) and 15 U.S.C. 7241
13.1 Certification of J. Eric Daniels and Helen A. Weir furnished pursuant to 17 CFR 240.13a-14(b) and 18 U.S

* Previously filed with the SEC, together with Lloyds TSB Group s registration statement, on 25 September
Previously filed with the SEC on Lloyds TSB Group s Form 20-F filed 23 June 2003.
p Previously filed with the SEC on Lloyds TSB Group s Form 20-F filed 5 April 2004.

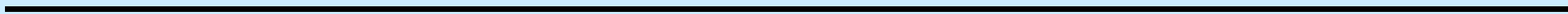
The exhibits shown above are listed according to the number assigned to them by

S

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has d
authorised the undersigned to sign this

LLOYDS TSB GROUP plc
By: /s/ H A Weir
Name: Helen A Weir
Title: Group Finance Director

Dated: 29 June 2005



Certifications required under Section 302 of the Sarba

I, Eric Danie

1. I have reviewed this annual report on Form 20-F of Lloyds TSB Group plc;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit material fact necessary to make the statements made, in light of the circumstances under which such statem made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual re present in all material respects the financial condition, results of operations and cash flows of the registrant the periods presented in this annual report;
4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure co procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the including its consolidated subsidiaries, is made known to us by others within those entities, particula period in which this annual report is being prepared;
   b) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
   c) evaluated the effectiveness of the company s disclosure controls and procedures and presented in th conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the pe by this report based on such evaluation; and
   d) disclosed in this report any change in the company s internal control over financial reporting that oc the period covered by the annual report that has materially affected, or is reasonably likely to materi company s internal control over financial reporting.
5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the re auditors and the audit committee of the registrant s board of directors (or persons performing the equivaler
   a) all significant deficiencies in the design or operation of internal controls which could adversely affe registrant s ability to record, process, summarize and report financial data and have identified for th auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a signif the registrant s internal controls; and
6. The registrant s other certifying officer and I have indicated in this annual report whether or not there were changes in internal controls or in other factors that could significantly affect internal controls subsequent to our most recent evaluation, including any corrective actions with regard to significant deficiencies and mate weaknesses.

/s/ J E Daniels
J. E. Daniels, Group Chief Executive
Date: 29 June 2005

I, Helen We

1. I have reviewed this annual report on Form 20-F of Lloyds TSB Group plc;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit material fact necessary to make the statements made, in light of the circumstances under which such statem made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual re present in all material respects the financial condition, results of operations and cash flows of the registrant the periods presented in this annual report;
4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure co procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the including its consolidated subsidiaries, is made known to us by others within those entities, particula period in which this annual report is being prepared;
   b) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
   c) evaluated the effectiveness of the company s disclosure controls and procedures and presented in th conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the pe by this report based on such evaluation; and
   d) disclosed in this report any change in the company s internal control over financial reporting that oc the period covered by the annual report that has materially affected, or is reasonably likely to materi company s internal control over financial reporting.
5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the re auditors and the audit committee of the registrant s board of directors (or persons performing the equivaler
   a) all significant deficiencies in the design or operation of internal controls which could adversely affe registrant s ability to record, process, summarize and report financial data and have identified for th auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a signif the registrant s internal controls; and
6. The registrant s other certifying officer and I have indicated in this annual report whether or not there were changes in internal controls or in other factors that could significantly affect internal controls subsequent to our most recent evaluation, including any corrective actions with regard to significant deficiencies and mat weaknesses.

/s/ H A Weir
Helen Weir, Group Finance Director
Date: 29 June 2005