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LLOYDS TSB FINANCIAL SERVICES LIMITED

REPORT OF THE DIRECTORS

AND

FINANCIAL STATEMENTS

31 DECEMBER 2006

Member of Lloyds TSB Group

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COMPANY INFORMATION

Board of Directors

J McConville
C R Torkington

Secretary

T C Nicholls

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Number

346570

DIRECTORS' REPORT

Principal activities and review of the business

The financial statements presented are in respect of Lloyds TSB Financial Services Limited (the "Company") The Company is a limited liability company incorporated in the United Kingdom

The principal activity of the Company is that of a holding Company and the Directors consider that the Company's activities will continue unchanged in the foreseeable future

Results and dividend

The result for the year ended 31 December 2006 is a profit after taxation of £233,000 (2005 £225,000) and this has been transferred to reserves The Directors do not recommend the payment of a dividend for the year (2005 £nil)

Principal risks and uncertainties

The financial risk management objectives and policies of the Company and the exposure to credit risk, liquidity risk and market risk are covered in note 11 to the financial statements

Key performance indicators

The Directors of Lloyds TSB Group plc manage the group's operations on a divisional basis For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Lloyds TSB Financial Services Limited The development, performance and position of the Insurance and Investment division of Lloyds TSB Group plc, which includes the Company, is discussed on pages 16 to 20 of the group's annual report which does not form part of this report

Directors

The names of the current Directors are listed on page 2 Particulars of the Directors' emoluments and interests in shares are given in note 12 to the financial statements

Statement of Directors' responsibilities

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out below

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the Company financial statements in accordance with IFRSs as adopted by the European Union The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements the Directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether the financial statements comply with IFRSs as adopted by the European Union, and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

Each Director confirms that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware Relevant information is defined as "information needed by the Company's auditors in connection with preparing their report"

Each Director has taken steps that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

On behalf of the Board of Directors

T C Nicholls
Secretary
28 June 2007

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBER OF LLOYDS TSB FINANCIAL SERVICES LIMITED

We have audited the financial statements of Lloyds TSB Financial Services Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's member as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion, the information given in the Director's report is consistent with the financial statements

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
28 June 2007

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
Interest receivable		333	323
Profit before tax		333	323
Taxation	3	(100)	(98)
Profit after tax		233	225

BALANCE SHEET
AS AT 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
ASSETS			
Non-current assets			
Investment in subsidiaries	4	626,413	626,413
Loans and receivables	5	550,969	-
Current assets			
Loans and receivables	6	32	550,996
Cash and cash equivalents	7	7,506	7,275
Total assets		1,184,920	1,184,684
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity holder			
Share capital	8	1,595,836	1,595,836
Retained earnings		(511,015)	(511,248)
Total equity		1,084,821	1,084,588
Liabilities			
Non-current liabilities			
Financial liabilities			
Other financial liabilities	9	100,000	100,000
Current liabilities			
Current tax payables	10	99	96
Total liabilities		100,099	100,096
Total equity and liabilities		1,184,920	1,184,684

Approved on behalf of the Board on 28 June 2007

Jas McCon

J McConville
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
Cash flows from operating activities			
Profit before tax		333	323
Adjustments for			
Interest receivable		(333)	(323)
Taxation paid		(97)	(50)
Net cash flows from operating activities		(97)	(50)
Cash flows from investing activities			
Interest received		328	324
Net cash flows from investing activities		328	324
Net increase in cash and cash equivalents		231	274
Cash and cash equivalents at the beginning of the year		7,275	7,001
Cash and cash equivalents at the end of the year	7	7,506	7,275

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital £000	Retained earnings £000	Total £000
Restated balance at 1 January 2005	1,595,836	(511,473)	1,084,363
Net profit for the year	-	225	225
Balance at 1 January 2006	1,595,836	(511,248)	1,084,588
Net profit for the year	-	233	233
Balance as at 31 December 2006	1,595,836	(511,015)	1,084,821

The restated balance at 1 January 2005 set out above was also reflected in the 2005 financial statements The restatement arose as a result of the first-time adoption of IFRSs in the prior year financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies

The Company has identified the accounting policies that are the most significant to its business operations and the understanding of its results The preparation of financial statements necessitates the use of estimates and assumptions The accounting policy which relates to the determination of impairment losses (note f) is that which involves the most complex or subjective decisions or assessments These estimates and assumptions affect the reported amount of assets and liabilities, contingent or otherwise, at the balance sheet date as well as affecting the reported income and expenses for the year In each case, the determination of these is fundamental to the financial results and position, and requires management to make complex judgements based on information and financial data that may change in future periods Although the estimates are based on management's best knowledge of current facts as at the balance sheet date, the actual outcome may differ from those estimates

The significant accounting policies adopted in the preparation of the financial statements are set out below

a) Basis of preparation

The financial statements of the Company have been prepared

(1) in accordance with the Standards issued by the International Accounting Standards Board and interpretations issued by its International Financial Reporting Interpretations Committee as endorsed by the European Union,

(2) in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, and

(3) under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities as set out below

b) Interest receivable

Interest receivable is recognised in the income statement as it accrues

c) Investment in subsidiaries

The Company owns a variety of subsidiaries None of the subsidiaries trade with a view to making a profit or loss, and the risk and rewards of owning those subsidiaries primarily rests with the shareholder of the Company Those subsidiaries are held at cost subject to impairment

d) Financial assets and liabilities

<u>Loans and receivables</u>

Loans and receivables are stated at amortised cost with the exception of accrued interest which is accounted for at fair value, reflecting the amounts receivable at the year end

<u>Other financial liabilities</u>

Other financial liabilities are stated at amortised cost

<u>Off-setting financial instruments</u>

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

e) Cash and cash equivalents

Cash and cash equivalents comprises short-term highly liquid investments in a cash fund

f) Impairment

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices

In order to determine whether financial assets are impaired, all financial assets for which the fair value has been significantly below cost price for a considerable period of time are individually reviewed A distinction is made between negative revaluations due to general market fluctuations and due to issuer-specific developments The impairment review focuses on issuer-specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Group's long term investment strategy

If there is objective evidence that an impairment loss has been incurred, a provision is established and is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cashflows discounted at the assets original effective interest rate

If there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the provision is adjusted and the amount of the reversal is recognised in the income statement

g) Taxation

Income tax on the profit or loss for the year is recognised in the income statement and comprises only current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date together with adjustments to tax payable in respect of prior years

2 Audit remuneration

The remuneration of the Auditors in respect of audit work is borne by Scottish Widows plc and no allocation is given to this Company No fees relating to non-audit services were paid to the Auditors during the year (2005 £nil)

3 Taxation

(a) Current year tax expense

	2006 £000	2005 £000
Current tax:		
UK corporation tax	100	98
Total income tax expense	100	98

(b) Reconciliation of tax expense

	2006 £000	2005 £000
Profit before tax	333	323
Total tax charge at standard rate of corporation tax in the UK (30%) (2005 30%)	100	97
Effects of		
Adjustment to tax charge in respect of prior years	-	1
Total tax charge for the year	100	98

4. Investments in subsidiaries

The Company owns the whole of the issued ordinary share capital of the following subsidiaries at the balance sheet date, all of which operate in the United Kingdom

Name	Class of Share or Stock	Percentage held	Country of Registration or Incorporation	Nature of Business
Abbey Life Investment Services Limited	Ordinary	100 00	England	Non-trading
Abbey Life Services Limited	Ordinary	100 00	England	Trading
Abbey Life Trustee Services Limited	Ordinary	100 00	England	Trading
Hill Samuel Investment Services Group Limited	Ordinary	100 00	England	Holding
Lloyds Bank Unit Trust Managers Limited	Ordinary	100 00	England	Non-trading
SW (No 3) Limited	Ordinary	100 00	England	Active non-trading
TSB Investment Services Limited	Ordinary	100 00	England	Non-trading
TSB Life Limited	Ordinary	100 00	England	Non-trading

5 Loans and receivables – due after more than one year

	2006 £000	2005 £000
Amounts due from related parties	550,969	-
Total	550,969	-

Amounts due from related parties have been reclassified as receivable after more than one year following agreement by the Company that it will not seek repayment of these balances within the next 12 months

6. Loans and receivables – due within one year

	2006 £000	2005 £000
Accrued interest	32	27
Amounts due from related parties	-	550,969
Total	32	550,996

7 Cash and cash equivalents

	2006 £000	2005 £000
Investments in a cash fund	7,506	7,275
Total	7,506	7,275

8 Called up share capital

	2006 £000	2005 £000
Authorised, called up, issued and fully paid share capital:		
1,595,836,000 ordinary shares (2005 1,595,836,000 ordinary shares) of £1 each	1,595,836	1,595,836

9. Other financial liabilities

	2006 £000	2005 £000
Amounts due to group undertakings	100,000	100,000
Total financial liabilities	100,000	100,000

10 Tax assets and liabilities

	2006 £000	2005 £000
Current tax payables	99	96
Total tax liabilities	99	96

11 Risk management policies

a) Governance framework

The Company is part of the Insurance and Investments Division of Lloyds TSB Group plc This Division has established a risk management function with clear terms of reference and with the responsibility for implementing the Lloyds TSB Group plc risk management framework and monitoring Lloyds TSB Group plc policies on insurance and financial risks

Responsibility for the management of risk resides with the Board, with reference to the risk policies summarised below, which are subject to at least an annual review or earlier if deemed necessary by circumstances

b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss

Credit risk to the Company arises primarily from exposure to intercompany debtors

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet its cash commitments as they fall due Liquidity risk may result from either the inability to sell financial assets quickly at their fair values, or from a counterparty defaulting on repayment of a contractual obligation, or from the inability to generate cash inflows as anticipated

Liquidity risk is managed in line with the Lloyds TSB Group Liquidity Risk Policy Other than the investment in the Scottish Widows Investment Partnership Global Liquidity Fund which is considered a current asset (within one year) the Company has no significant risk exposures

(3) Market risk

Market risk is the risk of fair value changes in the value of assets and liabilities from fluctuations in market interest rates (interest rate risk), whether such changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in interest rates The Company is exposed to a floating interest rate risk through the investment in the Scottish Widows Investment Partnership Global Liquidity Fund on which it expects an interest rate of 4 96%

12 Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Scottish Widows Group Limited, a Company registered in the United Kingdom Scottish Widows Group Limited has taken advantage of the provisions of the Companies Act 1985 and has not produced consolidated accounts

The Company's ultimate parent company and ultimate controlling party is Lloyds TSB Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Lloyds TSB Bank plc is the parent company of the smallest such group of undertakings Copies of the Lloyds TSB Group plc accounts in which the Company is consolidated can be obtained from the Group Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN

(b) Transactions with and balances due from/(to) related parties

Transactions with other companies in the Lloyds TSB Group:

The Company's current account bank balance is held with Lloyds TSB Scotland The total amount held in the bank account was £nil at 31 December 2006 (2005 £nil) The interest earned in the year on the account was £nil (2005 £nil) with amounts owing from Lloyds TSB Scotland at 31 December 2006 of £nil (2005 £nil)

Excess cash balances are invested in the Scottish Widows Investment Partnership Global Liquidity Fund The total amount held in this fund at 31 December 2006 was £7,506,000 (2005 £7,275,000) Interest earned in the year on this investment was £333,000 (2005 £323,000) and interest due at 31 December 2006 was £32,000 (2005 £27,000)

The Company is due £550,969,267 (2005 £550,969,267) from Scottish Widows Group Limited in respect of subsidiary companies transferred and capital restructuring, both of which took place in 2002

The Company owes Scottish Widows plc £100,000,000 (2005 £100,000,000) in respect of a non-interest bearing loan issued from Lloyds TSB Life Assurance Limited in 2002 Lloyds TSB Life Assurance Limited subsequently merged with Scottish Widows plc in 2005 and the non-interest bearing loan was transferred to Scottish Widows plc

Key management compensation

Transactions between the key management personnel of the Company and parties related to them as defined by International Accounting Standard 24 "Related Party Disclosures" are given below

The Directors and key management consider that they have received no remuneration for their services to the Company during the year On that basis, there are no aggregate emoluments of the Directors for the current year (2005 £nil)

Directors' interests in share capital

J McConville and C R Torkington are also Directors of the Company's intermediate parent Company, Scottish Widows Group Limited, and their interests are disclosed in the financial statements of that Company

None of the Directors who held office during the year ended 31 December 2006 had any interest in the shares of the Company (2005 none)

None of the Directors who held office during the year end 31 December 2006 had any other interests in the capital of Lloyds TSB Group plc or its shareholders

There were no other material transactions by the Company with related parties for the year ended 31 December 2006

13 Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2006 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective Date
IFRS 7 Financial Instruments Disclosures[1]	Consolidates the current financial instruments disclosures into a single standard and requires more detailed qualitative and quantitative disclosures about exposure to risks arising from financial instruments	Annual periods beginning on or after 1 January 2007
Amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures	Introduces additional disclosures of the objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and compliance with capital requirements	Annual periods beginning on or after 1 January 2007
IFRIC 8	Requires that, where an entity receives goods or services in consideration for equity instruments of the entity, and it appears that the consideration received is less than the fair value of the equity instruments granted or the liability incurred, the value of the unidentified goods or services to be received shall be measured as the difference between the fair value of the share-based payment and the fair value of any goods or services received	Annual periods beginning on or after 1 May 2006
IFRIC 10	Requires that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost	Annual periods beginning on or after 1 November 2006

[1]Includes consequential changes to other pronouncements

The full impact of these accounting changes is being assessed by the Company None of these pronouncements is expected to cause any material adjustments to the financial statements