

## Consolidated Income Statement for the year ended 31 December 2005

	Notes	Group	
		12 months to 31 December 2005 £m	13.5 months to 31 December 2004 £m
<b>Revenue</b>			
Gross earned premium		3,609	4,351
Premium ceded to reinsurers		(93)	(96)
Net earned premium		3,516	4,255
Net investment return	2	14,377	9,892
Income arising from associates and joint ventures	11	99	86
Fee and commission income	3	360	296
Other income		54	48
<b>Total net revenue</b>		<b>18,406</b>	<b>14,577</b>
<b>Expenses</b>			
Claims and benefits paid		4,195	5,112
Claim recoveries from reinsurers		(59)	(61)
Change in reinsurance assets	21	(112)	(41)
Change in insurance and participating liabilities	21	5,167	2,840
Change in investment contract liabilities		5,886	3,912
Change in deduction from liabilities due to present value of future results	21	(488)	-
Administration expenses			
Restructuring and demutualisation expenses	36	84	75
Other administration expenses	4	2,066	2,273
		2,150	2,348
Change in liability for third party interest in consolidated funds		43	16
<b>Operating expenses</b>		<b>16,782</b>	<b>14,126</b>
Finance costs		109	80
<b>Result before tax</b>		<b>1,515</b>	<b>371</b>
Tax expense	7	531	353
Transfer to/(from) unallocated divisible surplus		901	(15)
Increase in net assets attributable to minority interest		83	33
<b>Balance on Income Statement</b>		<b>-</b>	<b>-</b>

The result after tax and transfer to/(from) unallocated divisible surplus for the year of £83m (2004 : £33m) represents the increase in net assets attributable to minority interest.

## Consolidated Balance Sheet as at 31 December 2005

	Notes	Group	
		2005 £m	2004 £m
<b>Assets</b>			
Intangible assets	8	44	27
Deferred acquisition costs	9	290	269
Investments in associates and joint ventures	11	2,608	1,891
Investment property	12	9,907	8,779
Property and equipment	13	590	699
Deferred tax assets	14	75	43
Reinsurance assets	21	779	617
Loans and receivables	15	12,496	12,171
Derivative financial assets	16	247	230
Investment securities	17		
Equity securities and interests in pooled investment funds		43,601	35,494
Debt securities		43,830	37,562
		87,431	73,056
Other debtors	18	1,342	1,392
Cash and cash equivalents	19	4,451	2,840
<b>Total assets</b>		<b>120,260</b>	<b>102,014</b>
<b>Minority interest</b>		<b>340</b>	<b>250</b>
<b>Liabilities</b>			
Non-participating contract liabilities			
Non-participating insurance contracts	20,21	21,158	18,854
Non-participating investment contracts	20,21	40,929	30,597
		62,087	49,451
Participating contract liabilities			
Participating insurance contracts	20,21	19,633	18,264
Participating investment contracts	20,21	18,076	15,929
Present value of future results on non-participating contracts	20,21	(1,528)	(1,041)
Unallocated divisible surplus	23	4,827	3,678
		41,008	36,830
Third party interest in consolidated funds		358	77
Borrowings	24	6,233	5,701
Subordinated liabilities	25	1,878	1,600
Pension and other post retirement benefit provisions	26	386	472
Deferred income	27	238	234
Deferred tax liabilities	14	559	428
Current tax liabilities	14	240	100
Customer accounts related to banking activities and deposits by banks	28	5,134	5,147
Derivative financial liabilities	16	241	358
Other liabilities	29	1,558	1,366
<b>Total liabilities and minority interest</b>		<b>120,260</b>	<b>102,014</b>

Approved on behalf of the Board of Directors on 28 March 2006 by the following Directors:

Sir Brian Stewart, Chairman  
Sandy Crombie, Group Chief Executive  
Alison Reed, Group Finance Director

## Consolidated Statement of Recognised Income and Expenses for the year ended 31 December 2005

	Notes	Group	
		12 months to 31 December 2005 £m	13.5 months to 31 December 2004 £m
Fair value losses on cash flow hedges		(4)	-
Fair value losses on cash flow hedges transferred to Income Statement		-	(5)
Actuarial gains/(losses) on defined benefit pension schemes	26	22	(42)
Revaluation of land and buildings	13	11	16
Exchange differences on translating foreign operations	23	218	(93)
Aggregate tax effect of items not recognised in Income Statement		-	4
Other		1	-
<b>Net income/(expense) not recognised in the Income Statement transferred to/(from) unallocated divisible surplus</b>		<b>248</b>	<b>(120)</b>
Net income/(expense) recognised in the Income Statement transferred to/(from) the unallocated divisible surplus		901	(15)
<b>Total transfer to/(from) unallocated divisible surplus</b>		<b>1,149</b>	<b>(135)</b>

Further information is included in Note 23.

## Consolidated Cash Flow Statement for the year ended 31 December 2005

	Notes	Group	
		12 months to 31 December 2005 £m	13.5 months to 31 December 2004 £m
<b>Cash flows from operating activities</b>			
Transfer to/(from) unallocated divisible surplus		901	(15)
Tax expense		531	353
Increase in net assets attributable to minority interest		83	33
<b>Operating result before tax</b>		<b>1,515</b>	<b>371</b>
Gain on disposal of property and equipment		(10)	-
Depreciation of property and equipment	4	17	35
Amortisation of intangible assets	4	7	6
Amortisation of deferred acquisition costs	4	72	333
Impairment losses on deferred acquisition costs	4	-	44
Impairment losses on property and equipment	4	9	18
Reversal of impairment on property and equipment	4	(8)	-
Change in present value of future results on non-participating contracts		(488)	-
Interest cost on other borrowings		(4)	-
Adjustment for finance costs on bank activities		136	92
Finance costs		109	80
Foreign exchange loss on investment activity		6	26
Income arising from associates and joint ventures	11	(99)	(86)
Net (increase)/decrease in operating assets and liabilities	30	395	(1,119)
Adjustment for investment income		(39)	3
Taxation paid		(285)	(319)
<b>Net cash flows from operating activities</b>		<b>1,333</b>	<b>(516)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	13	(84)	(173)
Proceeds from sale of property and equipment	13	21	1
Net proceeds from disposal of subsidiaries	10	179	-
Acquisition of investment in joint ventures	11	(8)	-
Acquisition of investment in associates	11	(18)	-
Purchase of intangible assets	8	(24)	(17)
<b>Net cash flows from investing activities</b>		<b>66</b>	<b>(189)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowings		11	73
Repayment of other borrowings		(2)	(122)
Proceeds from subordinated liabilities		263	560
Interest paid on subordinated liabilities		(107)	(65)
Capital contributions from minority interest		18	38
Dividends paid to minority interest		(7)	(4)
<b>Net cash flows from financing activities</b>		<b>176</b>	<b>480</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,575</b>	<b>(225)</b>
Cash and cash equivalents at the beginning of the year	19	2,696	2,940
Effects of exchange rate changes on cash and cash equivalents		75	(19)
<b>Cash and cash equivalents at the end of the year</b>	19	<b>4,346</b>	<b>2,696</b>
<b>Supplemental disclosures</b>			
<b>Included in operating activities are:</b>			
Interest received		2,910	2,875
Dividend received		1,110	978
Rental income received on investment properties		618	548